

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

AMEREN ILLINOIS COMPANY)	
d/b/a Ameren Illinois,)	
Petitioner)	
)	
Proposed general increase in gas delivery)	Docket No. 13-0192
service rates.)	
)	

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DATED: September 20, 2013

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I. INTRODUCTION

The most significant driver of the rate increase requested by Ameren Illinois Company d/b/a Ameren Illinois (AIC or the Company) in this proceeding is the cost of plant investment. (Ameren Ex. 1.0 (Nelson Dir.), p. 3.) Although other drivers of the rate increase include necessary operations and maintenance expenses, increased costs of capital, and declining revenues attributable to lower usage, investment in assets accounts for 40% of the request. (*Id.*) AIC will invest over \$239 million in its gas plant infrastructure for 2013 through the 2014 test year - including investments in gas Advanced Metering Infrastructure (AMI), information technology, vehicles, gas storage fields and gas transmission/distribution plant. (Ameren Ex. 16.0 (2d Rev.) (Nelson Reb.), p. 3.) Nevertheless, there are only two contested issues solely related to rate base, and no witness has testified that any specific plant investment is imprudent or unreasonable. Thus the need for AIC's proposed test year plant is not in dispute.

The appropriate return on the investment in this necessary plant, however, is the most significant issue in the case in dollar terms. AIC will be competing for capital in the market in order to obtain the funds to make these investments. As Staff acknowledges, the approved cost of capital has real impact upon the operations and service quality of AIC over time. (Tr. 561.) Therefore, the return on equity must be set so that it is adequate to attract this capital at reasonable terms. AIC has proposed a reasonable return on equity of 10.4% based on competent empirical evidence. Staff and IIEC, by contrast, have not proposed a reasonable return, offering 8.81% and 9.1% respectively. As the Commission itself noted in its recent order in the Peoples/North Shore Gas case, the average of recent returns on equity authorized for natural gas utilities is 9.94%. (Ameren Ex. 16.0 (2d Rev.), p. 3.) Yet Staff's proposal is 115 basis points lower than this average. IIEC's proposal is 84 basis points lower. Staff's proposal in particular is simply an outlier. Securing the investment capital to meet its (undisputed) investment needs

will become more difficult if AIC's return on equity is set at these levels. (Ameren Ex. 16.0 (2d Rev.), p. 3.)

Moreover, the market is changing. Interest rates are rising, justifying higher rates of return. Even Staff recognized as much, increasing their (still unreasonably low) proposed return on equity by 34 basis points between direct and rebuttal testimony. As AIC witnesses Mr. Nelson and Mr. Hevert noted, AIC's capital expenditures will be made in this rising interest rate environment, as the interest rate on long term US treasury bonds have moved higher in recent months. (*Id.*, p. 4; *see also* Ameren Exs. 20.0 (Hevert Reb.), pp. 3-7; 34.0 (Rev.) (Hevert Sur.), pp. 5-6, Table 1.) AIC views the current interest rate environment in relation to the cost of the company's capital as a significant factor in today's financial market place. The rate of return approved by the Commission should recognize this.

Of course, there are other important issues in this case, and, as discussed in this brief, AIC's position on these issues should be adopted. AIC's evidence demonstrates that its proposed rate increase will result in just and reasonable rates. But the Commission should give particular attention to AIC's return on equity, in order to ensure that AIC can reasonably obtain the necessary capital to fulfill its test year investment needs.

A. Overview

B. Procedural History

On January 25, 2013, AIC filed new or revised tariff sheets for gas service proposing changes in gas rates as well as certain riders and other tariff changes. On March 6, 2013, the Commission entered a Suspension Order suspending the Proposed Tariffs for gas service to and including June 23, 2013. Upon suspension, AIC's gas filings became identified as Docket No. 13-0192. On May 15, 2013, the Commission entered a Resuspension Order renewing the suspension of the Proposed Tariffs to and including December 23, 2013.

As required by law, notice of the filing of the proposed rate increases was posted in each of AIC's business offices and was published twice in newspapers of general circulation within each of AIC's service areas. (Affidavit of Notice (Apr. 5, 2013).) In addition, AIC sent notice of the filing to its customers in a bill insert. (*Id.*)

The following parties successfully petitioned the Commission to intervene: the Citizens Utility Board (CUB); the People of the State of Illinois through the Attorney General (AG); the Illinois Industrial Energy Consumers (IIEC); Illinois Competitive Energy Association (ICEA); and Retail Energy Supply Association (RESA), Interstate Gas Supply of Illinois, Inc. (IGS) and Dominion Retail, Inc. (collectively Retail Gas Suppliers or RGS). All testimony and evidence submitted by these parties (as well as by AIC) is reflected on e-Docket.

Pursuant to due notice, a status hearing was held before Administrative Law Judges of the Commission at its offices in Springfield, Illinois on August 23, 2013. Thereafter, evidentiary hearings were held from August 26, 2013 through August 29, 2013.

C. Nature of AIC's Operations

AIC is a combination gas and electric public utility whose service area is located in central and southern Illinois and consists of the former service territories of its three predecessor companies - AmerenCILCO, AmerenCIPS, and AmerenIP. AIC was formed on October 1, 2010, when AmerenCILCO and AmerenIP were merged into AmerenCIPS. Concurrent with the merger, the newly formed company changed its name to Ameren Illinois Company and began doing business as Ameren Illinois.

Ameren Illinois provides gas delivery service to approximately 840,000 natural gas customers. AIC has established three separate rate zones that correspond to the former service territories. Rate Zone I, formerly AmerenCIPS, currently serves approximately 190,000 natural gas customers in Illinois. The rate zone's service territory includes, among others, the cities of

Quincy, Mattoon, Carbondale, and Marion. Rate Zone II, formerly AmerenCILCO, currently serves approximately 213,000 natural gas customers over 4,500 square miles in central and east central Illinois. Rate Zone II's service territory includes, among others, the cities of Peoria, East Peoria, Pekin, Washington, Lincoln, Morton, Tuscola and Springfield. Rate Zone III, formerly AmerenIP, currently serves approximately 427,000 natural gas customers across 15,000 square miles of central, east central and southern Illinois. As the largest of the rate zones, it accounts for 8,400 distribution miles of gas main and serves major communities such as Decatur, Belleville, Champaign-Urbana, Centralia, East St. Louis, Galesburg, Granite City, Hillsboro, Jacksonville, LaSalle, Maryville and Mt. Vernon.

D. Test Year

AIC proposed a future test year ending December 31, 2014. No party has contested the use of this test year.

E. Legal Standard

Illinois law provides that rates for utility services “shall be just and reasonable.” 220 ILCS 5/9-101. The evidence submitted by AIC in this proceeding meets the legal requirement to approve the requested increase in rates. When a utility in a rate proceeding provides the requisite evidence relating to its prudent expenses, the burden on the opposing participants to successfully move for disallowance is great. Indeed, the Commission may disallow costs only if record evidence establishes *unreasonableness* or *imprudence* in a utility's business decisions. *BPI v. Ill. Commerce Comm'n*, 279 Ill. App. 3d 824, 829-830 (1st Dist. 1996). Accordingly, many of the disallowances and adjustments proposed by certain parties in this proceeding and discussed below are inappropriate and unlawful.

II. RATE BASE

The proposed rate bases for Rate Zone I, Rate Zone II and Rate Zone III gas services are shown on Schedule 2 of Appendix A, B, and C, respectively.

A. Resolved Issues

1. ADIT Bonus Depreciation

AG/CUB witness Mr. Effron proposed an adjustment to AIC's calculation and allocation of bonus depreciation to properly reflect new legislation. (AG/CUB Ex. 2.0, pp. 7-10.) AIC had originally estimated approximately 2% of gas plant additions would be eligible for 100% bonus depreciation. (Ameren Ex. 17.0 (Rev.) (Stafford Reb.), p. 6.) Under the new legislation, 50% bonus depreciation was allowed for 2013, but 100% bonus depreciation was not available. (*Id.*) AIC witness Mr. Stafford accepted Mr. Effron's adjusted calculation of bonus depreciation in his rebuttal testimony. (*Id.*)

2. Budget Payment Plan Balances

AG/CUB witness Mr. Effron and Staff witness Mr. Ostrander each proposed an adjustment to reduce rate base by the average value of over-collections associated with budget payment plan balances. (*See* AG/CUB Ex. 2.0, pp. 10-11; ICC Staff Ex. 3.0, pp. 5-6.) Mr. Effron proposed that the average budget payment plan balance from the two years ending April 30, 2012 be deducted from rate base, while Mr. Effron argued that the deduction should be calculated using a 13-month average. (*Id.*) AIC accepted Mr. Ostrander's recommendation, contending that the 13-month average was more consistent with the methods used to calculate other rate base and capital structure components. (Ameren Ex. 17.0 (Rev.), p. 30.) In his rebuttal testimony, Mr. Effron stated that he did not believe the method agreed upon by Staff and AIC was unreasonable. (AG/CUB Ex. 6.0, p. 3.) Thus, this issue is resolved among all parties.

3. Original Cost Determination

AIC requested that the Commission approve AIC's gas plant balances as of December 31, 2011 for purposes of an original cost determination. (Ameren Ex. 2.0 (Rev.) (Stafford Dir.), p. 25.) Staff witness Mr. Ostrander agrees with the AIC's request that the Commission conclude and make a finding that AIC's plant balances as of December 31, 2011, in the amount of \$407,242,000 for RZ I, \$566,851,000 for RZ II, and \$1,004,731,000 for RZ III, be approved for purposes of an original cost determination. (ICC Staff Ex. 3.0, pp. 6-7; Ameren Ex. 17.0 (Rev.), p. 3.) His recommended form for the findings language is:

the Commission, based on AIC's gas Rate Zone ____ original cost of plant in service as of December 31, 2011, before adjustments, of \$_____, and reflecting the Commission's determination adjusting that figure, approves \$_____ as the original cost of plant for AIC's gas Rate Zone ____ as of said date.

No other parties oppose this determination, and it is thus resolved.

B. Contested Issues

1. ADIT – Step-up Basis Metro

Both Staff and AG/CUB recommend that the Commission reduce AIC's rate base by \$1,390,000. The adjustment is premised on the 2005 transfer of Union Electric's gas assets to CIPS. In accounting for that transfer, CIPS recorded a deferred tax asset that reduced accumulated deferred income taxes (ADIT). (AG/CUB Ex. 2.0, p. 4.) Because ADIT reduces rate base, recording this asset had the effect—if considered in isolation—of temporarily increasing rate base. (Ameren Ex. 31.0 (Stafford Sur.), p. 16.) Asserting that a “transfer of property from one regulated utility to another should not result in any increase to the net [rate base] value of those assets” (AG/CUB Ex. 2.0, p. 5), AG/CUB and Staff argue that the deferred asset should be reversed and rate base reduced. (*Id.*, p. 6; *see also* ICC Staff Ex. 1.0, pp. 11-12: 207-09 (“the rate base value attributable to them for ratemaking purposes should not change

because those assets were transferred between affiliates”).)

For a number of reasons, the Metro East adjustment should be rejected.

The Alleged Premise for the Adjustment—that There Has Been a Net Increase in Rate Base—Is Simply Not True.

To begin, it should be made clear that no party has suggested any error occurred either in CIPS’s purchase of assets from Union Electric or in accounting for the transfer. Not only has no one indicated that any such error occurred, but the Commission specifically approved both the purchase and accounting elements of the transfer. In 2004, before the transfer of assets occurred, the Commission specifically found that the transfer was “in the public interest” and that “neither the ratepayers of AmerenUE nor of AmerenCIPS are likely to be adversely affected in the event the proposed asset transfer and reorganization takes place.” *Cent. Ill. Pub. Serv. Co.*, Docket 03-0657, Order, p. 17 (Sept. 22, 2004). Likewise, the Commission specifically reviewed and approved the accounting entries related to the transfer. *Id.* at 20 (“the Commission finds the Companies’ proposed journal entries to be reasonable, and those journal entries are approved”). In short, the adjustment is not premised on any imprudence or erroneous accounting by AIC.

Rather, the adjustment is purely *ad hoc*, premised solely on the notion that the normal operation of ADIT rules had a negative impact on ratepayers by increasing net rate base. (ICC Staff Ex. 1.0, p. 11 (“Ratepayers should not be required to pay a return on an increased rate base”); AG/CUB Ex. 2.0, p. 5 (“this transfer of property from one regulated utility to another should not result in any increase to the net value of those assets in the Company’s rate base”).)

But the premise of this argument is not just incorrect, it is opposite reality. The uncontroverted record evidence shows that the ADIT impact of the transfer has not harmed ratepayers but *benefited* them.

The Transfer of the Assets Restarted and Extended the Accumulation of ADIT Associated with the Assets.

Staff and AG/CUB both point out that when Union Electric's assets were transferred to CIPS, the ADIT on the seller's books did not follow the assets to CIPS's books. (They do not question whether this was correct accounting, which it was.) But because ADIT reduces rate base, they assert that the transfer effectively increased the value of the assets in CIPS's rate base. This is actually correct, as far as it goes. But it does not go far enough.

That is because the transfer did not end the accumulation of ADIT on the assets, but continued and increased it. Following the transfer, the transferred assets were treated as though they were placed in service on the date of the transfer. (Ameren Ex. 31.0, pp. 16–17.) So, although Union Electric's accrued ADIT did not follow the assets to CIPS, tax depreciation on the assets *started over*. (*Id.*) Why is this significant? Because tax depreciation is what generates tax-timing differences and hence ADIT. (*Id.*) So, while the ADIT generated at Union Electric did not come to CIPS, ADIT started accumulating deferred income taxes all over again on CIPS's books following the transfer.

The New ADIT on AIC's Books Exceeds the ADIT Written off Union Electric's.

Staff and AG/CUB are incorrect to assert that there was a *net* increase in rate base because of the transfer.

The record shows that the ADIT accrued on CIPS's books for the transferred assets since the transfer dwarfs the vintage ADIT from Union Electric. While the nature of the problem makes precise calculation difficult, the evidence shows that AIC's books presently contain “roughly [\$]4 million of accumulated deferred taxes in rate base,” which more than triples the \$1.3 million adjustment proposed by Staff and AG/CUB. (Tr. 346; *see also* Ameren Ex. 31.0, p. 18.) Far from harming ratepayers, the ADIT impact of the transfer *benefited* them—it effectively

restarted and extended the period of tax depreciation and thus reduced rate base by millions more dollars.

Thus, the sole premise of the adjustment falls away: there has been no net increase in rate base. As AIC witness Stafford made clear on cross-examination, although there was an increase in rate base immediately following the transfer, “it [was] temporary.” (Tr. 346.) That increase “turns around, and I am saying it is more than turned around.” (Tr. 346–47.) As he concluded, the ADIT “rate base deduction is much greater with the transfer than it would have been absent the transfer.” (Tr. 347.)

Perhaps this is partly why the Commission held that “neither the ratepayers of AmerenUE nor of AmerenCIPS are likely to be adversely affected in the event the proposed asset transfer and reorganization takes place.” *Cent. Ill. Pub. Serv. Co.*, Docket 03-0657, Order, p. 17 (Sept. 22, 2004). The transfer essentially gave ratepayers an extension on the rate-base reducing effect of ADIT.

In summary, the sole premise of the adjustment is false. Ratepayers are not paying more for the transferred assets; they are paying less.

Adopting the Proposed Adjustment Would also Be Double-Counting ADIT—Giving Ratepayers an Undeserved Windfall.

Even if there were not a ratepayer benefit, forcing CIPS to recognize Union Electric’s ADIT as well as its own would be to double-count ADIT.

The ADIT that makes up the proposed adjustment arises from the same assets that are currently generating ADIT on AIC’s books. As Mr. Stafford explained, “under the Staff and AG proposals, tax depreciation is counted in the ADIT balance on [Union Electric’s] books at the time of the transfer . . . and then counted again as ADIT accrues going forward [on CIPS’s books]” (Ameren Ex. 31.0, p. 19.) In other words, “ADIT accrued at the time of the

transfer would be deducted from rate base. Then, ADIT accrual would start over after the transfer, and that ADIT would also be deducted from rate base.” (*Id.*, p. 21.)

Double counting is inappropriate in ratemaking, and this provides another reason to reject the adjustment proposed by Staff and AG/CUB.

The Commission has Specifically Approved the Transfer and Related Accounting and Specifically Rejected this Adjustment.

In AIC’s view, it is questionable whether an appropriately accounted-for transfer should ever provide the basis for a rate penalty, particularly when the Commission (a) specifically approved the transfer itself, (b) specifically approved the accounting of the transfer, and (c) specifically held that ratepayers were *not* harmed by the transfer. *Cent. Ill. Pub. Serv. Co.*, Docket 03-0657, Order, p. 17 (Sept. 22, 2004). In fact, at the time of the transfer, Staff proposed a correction to the accounting for deferred taxes, so the Commission was well aware of the deferred tax issue when they determined that ratepayers would not be harmed. *Id.* And if this were not enough precedent, a substantially identical adjustment has already been proposed and rejected not once, but twice, in AIC’s electric formula-rate cases. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 33–34 (Dec. 5, 2012); *Ameren Ill. Co.*, Docket 12-0001, Order, p. 69 (Sept. 19, 2012).

2. Pension/OBEB Expense – Employee Benefits Adjustment

This issue is addressed in Section III (B)(1) *infra*.

3. Non-Union Wages

This issue is addressed in Section III (B)(4) *infra*.

4. Cash Working Capital

a. Pass-Through Taxes Lead Days

AIC proposes the expense leads for Energy Assistance Charges (EAC), the Illinois Gas

Use and Gas Revenue Tax (Gas Tax) and the Municipal Utility Tax (MUT) be set consistent with the Commission's decision in Docket 11-0282—based on the actual amount of time AIC holds the funds before remittance¹. *Ameren Ill. Co.*, Docket 11-0282, Order, pp. 13-14 (Jan. 10, 2012.) Staff witness Mr. Kahle and AG/CUB witness Mr. Brosch recommend the expense lead for EAC and Gas Tax be set at 41.84 days and at 48.54 days for MUT. (ICC Staff Ex. 2.0R, pp. 5-7, 10; AG/CUB Ex. 5.0, pp. 62-64.) Staff and AG/CUB's expense leads are imputed based on the timing of when AIC could theoretically remit the funds. The parties all propose a revenue lag of zero days for each of the pass-through taxes. (*Ameren Ex. 12.0 (Heintz Dir.)*, p. 5; ICC Staff Ex. 2.0R, p. 5; AG/CUB Ex. 5.0, pp. 60, 63-65.)

Thus, the single contested issue with respect to AIC's cash working capital calculation is whether it should reflect the amount of time that AIC *could* hold certain pass-through taxes under the applicable statutory requirements, or the amount of time that AIC *actually does* hold the pass-through taxes before remittance. (Tr. 439.) AIC's cash working capital calculation reflects the latter—as Staff admits—AIC actually has access to the EAC funds at issue for four days. (Tr. 442.) AIC's calculation is consistent with the Commission's decision in AIC's last gas rate case, Docket 11-0282, which adopted the revenue lag and expense leads for pass-through taxes that reflect AIC's actual practices. *Ameren Ill. Co.*, Docket 11-0282, Order at 13-14. AIC's collection and remittance practices have not changed since then, which Mr. Kahle acknowledges. (ICC Staff Ex. 2.0R, p. 9.) The Commission should continue to utilize AIC's actual remittance practice, as it did in Docket 11-0282.

The expense leads recommended by Mr. Kahle and Mr. Brosch are not based on reality—

¹ Consistent with the Commission's decision in Docket 11-0282, the proper expense leads are EAC (4 days), MUT (14 days) and Gas Tax (1) day.

they are based solely on when AIC, theoretically, *could* remit the funds. But while Mr. Kahle and Mr. Brosch ignore AIC's actual collection and remittance practices, they do not argue AIC's practices are improper (they are not). In fact, Mr. Kahle testified at hearing that he has *no substantive issue at all* with AIC's remittance practices:

Q. So is it fair to say then, sir, that you do not take issue in substance with the practice itself?

A. No, it's only concerning a rate [making] adjustment.

(Tr. 444-45.)

Likewise, the taxing authorities have had no issues with the Company's current remittance practices. (Ameren Ex. 39.0 (Heintz Sur.), p. 3.)

Mr. Kahle claims he is not recommending any changes to AIC's remittance practices by his use of higher lead days. (ICC Staff Ex. 11.0 (Rev.), p. 5.) Rather he claims that he is only making a "ratemaking" adjustment that reduces the level of AIC's cash working capital. (*Id.*) However, adoption of his position regarding the expense lead days for the EAC and Gas Tax will likely lead AIC to institute changes in its practices to comport with his interpretation of the remittance instructions. (Ameren Exs. 25.0 (Heintz Reb.), p. 8; 39.0, p. 4.) As Mr. Heintz explained, AIC is not the only entity that will be impacted by the Commission's decision—AIC would need to consult with the taxing authorities to determine if and how any change in the remittance schedule could be implemented. (Ameren Ex. 25.0, p. 8.) Further, AIC would be required to make systems-related changes prior to implementing any such modifications in the remittance schedule—such changes which could take substantial time and expense. For example, AIC reports and pays the EAC based upon actual billings, as opposed to collections, so system changes would need to be made that will impact how the amount of tax due is calculated. (*Id.*)

Thus, if the Commission adopts Staff and the AG/CUB adjustment (though it should not),

AIC requests that the Commission defer the implementation of such a decision regarding a change in the remittance schedules for the EAC and Gas Tax until AIC's next gas rate proceeding. This will allow AIC an opportunity to undertake discussions with the taxing authorities regarding the timing and method by which to achieve the remittance schedule proposed by Staff and AG/CUB. If the taxing authorities are amenable to such changes, AIC will be required to modify existing information systems to implement the changes. Deferring a decision on if and how changes to the remittance schedule can be implemented will further allow a matching of any savings and costs associated with the change in the remittance schedule.

The Commission should also clearly articulate in its final order in this proceeding that all reasonable and prudently incurred incremental costs associated with the modification of the current remittance practices should be included in and recovered via the rates established in the Company's next gas rate proceeding.

C. Recommended Rate Base

The proposed rate bases for Rate Zone I, Rate Zone II and Rate Zone III gas service are shown on Schedule 2 of Appendix A, B, and C, respectively.

III. OPERATING REVENUES AND EXPENSES

A. Resolved Issues

1. Outside Professional Services

Staff witness Mr. Kahle proposed a disallowance of fees paid to three vendors: SFIO Consulting (SFIO), Guidant Group, Inc. (Guidant), and Foley & Lardner LLP (Foley). (ICC Staff Ex. 11.0 (Rev.), p. 17.) Mr. Kahle argued that AIC had not provided sufficient descriptions of the services provided by these vendors. (*Id.*) In rebuttal and surrebuttal testimony, AIC witnesses described the necessity and appropriateness of those services. (*See Ameren Exs. 31.0 (Stafford Sur.), pp. 8-10; 41.0 (Voiles Sur.), pp. 2-11.*) In the interest of narrowing the disputed

issues in this case, Staff and AIC reached an agreement to resolve this issue. AIC withdrew its request to recover the expenses associated with SFIO and Foley, while Staff agreed that the amount associated with Guidant is recoverable as part of the Company's 2014 test year. (AIC Cross Ex. 7 (Staff response to AIC-Staff 15.01).) As such, this issue has been resolved. The adjustment to remove the expenses associated with SFIO and Foley is shown on Appendix D, Schedule 1, to this Brief.

2. Uncollectible Accounts Expense for Rider GUA

Staff witness Mr. Kahle proposed language for inclusion in the Commission's Final Order, which would incorporate the amount of uncollectible expense under Rider GUA established using the revenue requirement and methodology approved by the Commission in this proceeding. (ICC Staff Ex. 2.0R, p. 15.) AIC did not contest Mr. Kahle's proposal, and the issue is therefore resolved.

3. Lobbying Expense

Staff witness Ms. Pearce proposed removal of certain expenses she contended were associated with lobbying from the revenue requirement for the test year. (ICC Staff Ex. 4.0R, p. 12.) The expenses included a portion of two employees' salaries and reflected the two percent factor applied to estimated amounts for 2013 and 2014. (*Id.*) AIC accepted this adjustment, with a correction to Staff's allocation by rate zone. (Ameren Ex. 17.0 (Rev.) (Stafford Reb.), p. 5.) Ms. Pearce did not contest AIC's rate zone allocation, and AIC thus considers the issue resolved.

4. Adjustment to Office Supplies Expense

In her direct testimony, Staff witness Ms. Pearce recommended removing from rate base a portion of office supplies expense, recorded in Account 921. (ICC Staff Ex. 4.0R, pp. 8-10.) Ms. Pearce argued that the underlying costs were unrecoverable for a variety of reasons. (*Id.*) AIC accepted a portion of Ms. Pearce's adjustment, but for reasons stated in the testimony of

AIC witness Mr. Stafford, AIC disagreed with the remainder of Ms. Pearce's adjustment. (Ameren Ex. 17.0 (Rev.) (Stafford Reb.), pp. 12-16.) In her rebuttal testimony, Ms. Pearce withdrew the portion of her recommended adjustment that had not been accepted by AIC. (ICC Staff Ex. 13.0, p. 5.) As a result, this issue is resolved.

5. Payments to Surviving Spouse of IP Employee

Staff witness Mr. Kahle proposed an adjustment to Outside Professional Services expense to remove amounts paid in 2012 to the surviving spouse of a former IP employee. (ICC Staff Ex. 2.0R, p. 17.) These amounts were related to the former employee's post-employment consulting work in a prior period, and were paid pursuant to an agreement calling for monthly stipends paid to the former employee's spouse. (*Id.*) AIC accepted this adjustment in rebuttal. (Ameren Ex. 17.0 (Rev.) (Stafford Reb.), p. 4.)

6. Industry Dues Expense

Staff witness Ms. Pearce recommended an adjustment to reduce Industry Dues Expense by approximately \$21,000. (ICC Staff Ex. 4.0R, pp. 11-12.) Ms. Pearce argued that the disallowed costs did not provide benefits to ratepayers or were related to lobbying activity. (*Id.*) AIC accepted removal of \$19,000 from Industry Dues Expense, but opposed removal of amounts paid to the St. Louis Area Business Health Coalition (BHC), arguing that, although BHC is permitted to conduct lobbying activities because it is a 501(c)(3) entity, lobbying is a very minor part of what the organization actually does. (Ameren Exs. 17.0 (Rev.) (Stafford Reb.), p. 5; 21.0 (Rev.) (Kennedy Reb.), pp. 17-18.) Ms. Pearce continued to argue that removal of the dues paid to BHC was proper because AIC did not demonstrate that the amount paid by AIC was not used by BHC for lobbying activities. (ICC Staff Ex. 13.0, pp. 13-14.) In his surrebuttal testimony, AIC witness Mr. Stafford stated that only 2% of the dues collected by BHC are used for lobbying. (Ameren Ex. 31.0 (Stafford Sur.), p. 10.) AIC removed the lobbying portion of the

dues, but continues to believe that the remaining dues paid to BHC are recoverable. (*Id.*) It is AIC's understanding that Staff now concedes that the remaining portion of these expenses is recoverable.

B. Contested Issues

1. Pension/OPEB Expense - Employee Benefits Adjustment

AIC's test year level of pension and OPEB expense in its initial filing was based on a Pension and OPEB Expense Forecast as of October 31, 2012. In February 2013, a new Pension and OPEB Expense Forecast was produced that reflected an updated 2012 actuarial valuation and assumptions as of December 31, 2012. (Ameren Ex. 16.0 (2d Rev.) (Nelson Reb.), p. 4.) Staff and AG/CUB proposed an adjustment to reflect the February 2013 updated pension and OPEB expense amounts. (ICC Staff Ex. 2.0R, pp. 17-18, Schedule 2.05; AG/CUB Exs. 4.0, pp. 8-15; 4.2.) As explained below, AIC has, for the purposes of this case, agreed to reflect the February 2013 updated pension and OPEB expense amounts, along with other related changes, in its revenue requirement.

The adjustment, as proposed by Staff and AG/CUB, would represent an "update" to AIC's test year forecast under Commission rules. (Ameren Ex. 16.0 (2d Rev.), p. 5.) The February 2013 Pension and OPEB Expense Forecast reflects updated actuarial valuations and assumptions as of December 31, 2012. It is a significant and material change that affects AIC's revenue requirement. Thus, under Section 287.30(c) of the Commission's rules, the February 2013 Pension and OPEB Expense Forecast constitutes updated data for AIC's future test year forecast. Regarding the procedure for updates, Section 287.30(a) provides:

During the suspension period, the assigned Administrative Law Judge may require or allow the utility to update its schedules and workpapers, if a utility has proposed a future test year, according to the schedule established in the proceeding when evidence has been introduced that a significant and material change affecting the

revenue requirement as defined in subsection (c) of this Section has occurred. In establishing this schedule, the Administrative Law Judge shall consider the timing and scope of the updated filing. A utility shall not be allowed or required to submit more than one updated filing, or to submit an updated filing during the final 150 days of the resuspension period. When data are updated, the utility shall also provide updated information for any affected schedules and work papers originally submitted as a requirement of 83 Ill. Adm. Code 285.

83. Ill. Admin. Code § 287.30(a). No update was required or allowed by the ALJs in this proceeding. (Ameren Exs. 16.0 (2d Rev.), p. 5; 30.0 (Nelson Sur.), p. 4.) Therefore, in rebuttal testimony, AIC took the position that the adjustment proposed by Staff and AG/CUB was not presented in accordance with the rules and should be rejected.

Staff and AG/CUB's proposal is also problematic because it singles out Pension/OPEB expense, but does not evaluate other changes to the Company's forecast and schedules that might result from: (1) the drivers of the Pension/OPEB expense changes or (2) other changes to forecasted costs. (Ameren Ex. 16.0 (2d Rev.), p. 6.) For example, one change in the actuarial assumptions, which reduced Pension and OPEB expense, is related to rising interest rates. The February 2013 Pension/OPEB Forecast assumed a higher discount rate, thus reducing forecasted Pension/OPEB expense. (*Id.*) However, Staff and AG/CUB made no corresponding upward adjustment to the forecasted cost of debt related to the planned \$500 million debt financing scheduled for December 2013. But the annual interest expense for the forecasted \$500 million long-term debt refinancing is expected to be about \$2.1 million more than the amount included in the revenue requirement calculation. (*Id.*)

Other costs are going up, some significantly. The projected costs to implement the SVT program have increased. AIC witness Ms. Vonda K. Seckler explains that projected capital expenditures and O&M expense have increased by about \$3.6 million and \$0.4 million, respectively. (Ameren Ex. 26.0 (Seckler Reb.), p. 28.) In connection with Staff's proposed

rental revenue adjustment, O&M costs related to the Enterprise Asset Management and Mobile Work Management systems (which will also be utilized in part by Ameren Missouri) are also projected to increase in the test year, which increases the revenue requirement by about \$0.5 million. (Ameren Ex. 17.0 (Rev.) (Stafford Reb.), p. 26.)

In light of these other forecast changes, adoption of an adjustment to only pension and OPEB expense would also violate the rule against single-issue ratemaking. “The prohibition against single-issue ratemaking requires that, in a general base rate proceeding, the Commission must examine all elements of the revenue requirement formula to determine the interaction and overall impact any change will have on the utility's revenue requirement...” *Citizens Util. Bd. v. Ill. Commerce Comm'n*, 166 Ill. 2d 111, 137-138 (1995). Staff and AG/CUB’s proposal to reflect only the February 2013 updated amounts for pension and OPEB amount would “consider[] changes in isolation, thereby ignoring potentially offsetting considerations and risking understatement or overstatement of the overall revenue requirement,” and so would be prohibited as single issue ratemaking. *People ex rel. Madigan v. Ill. Commerce Comm'n*, 2013 IL App (2d) 120243, *26 (2013).

However, in the interest of narrowing issues in this case, AIC has reflected the Pension/OPEB adjustment recommended by Staff and AG/CUB in its revenue requirement, along with the three cost increases that AIC identified above—interest expense, SVT costs and the Enterprise Asset Management and Mobile Work Management systems costs. (Ameren Ex. 31.0 (Stafford Sur.), p. 4.)

2. Non-Union Wages

At issue is the percentage increase the Commission should use to calculate AIC’s forecasted level of non-union wages for the test year. AIC and Staff offer competing, yet not terribly dissimilar, proposals. Both rely on the increase AIC has experienced in 2013. The

difference lies in whether the Commission should use a partial or a full year of data as a representative proxy for the test year increase. Staff recommends the Commission use a rate reflective of the increase in non-union wages AIC experienced for only 7 months of 2013 (3.69%). AIC, in contrast, proposes the Commission uses a rate reflective of the overall increase AIC expects to experience over 12 months in 2013 (3.93%). The Commission should accept AIC's percentage as a reasonable and more accurate representation of the test year increase.

AIC's forecast assumed a 4.0% increase in non-union wages. (Ameren Ex. 18.0 (Rev.) (Getz Reb.), p. 3.) This is the same assumption reflected in the Commission's final order in AIC's last gas rate case, Docket 11-0282. (*Id.*, p. 5.) This assumption reflects AIC's recent history of actual non-union wage increases. (*Id.*, pp. 8, 10; Ameren Exs. 27.0 (Langenhorst Reb.), pp. 10-12; 27.1.) This assumption also reflects recent salary survey data relied upon by AIC when budgeting future wage increases. (Ameren Ex. 27.0, pp. 4-6.)

For the purpose of setting delivery rates in this proceeding however, AIC has proposed the Commission use a rate slightly lower than 4.0%, specifically 3.93%. (Ameren Ex. 42.0 (Langenhorst Sur.), p. 5.) This rate reflects AIC's projection of the actual increase in non-union wages AIC will experience in 2013. (*Id.*) It is a projection that reflects the actual increase in non-union wages AIC has experienced in 2013 through the end of July. (Ameren Exs. 42.0, p. 5; 42.2.) But it is a projection that also reflects a reasonable estimate of the increase in wages AIC is likely to experience during the remainder of 2013. (Ameren Exs. 42.0, p. 5; 42.1.) Since AIC has incorporated this rate into its revenue requirement schedules, no further adjustment is necessary.

Staff, to its credit, now agrees the Commission should rely on actual, historical, AIC-specific wage rate data when projecting AIC's test year level of non-union wages. (ICC Staff Ex.

11.0 (Rev.), p. 12.) This is in contrast to Staff's initial position in its direct testimony that advocated the use of a CPI factor—a methodology that AIC demonstrated was not appropriate based on the available market data and AIC's own historical increases. (Ameren Exs. 18.0 (Rev.), pp. 6-9; 27.0, pp. 9-10.) Staff and AIC even agree that the most recent actual wage data for 2013 should provide the foundation for the test year projection. The *only* difference between the parties' two approaches is Staff proposes the Commission use a partial year of actual wage data for 2013, while AIC proposes the Commission use a full, annualized year of data.

Staff, in its rebuttal filing, proposes the Commission use 3.59%, which represents the actual increase in non-union wages experienced by AIC through June 30, 2013. (ICC Staff Ex. 11.0 (Rev.), p. 12.) Since that filing, Staff already has conceded the suitable rate should be higher, specifically 3.69%, based on the actual increase experienced by AIC, only one month later, through July 31, 2013. (AIC Cross Ex. 5 (Staff response to AIC-Staff 18.01).) Staff's proposal does not take into account the increases likely to happen for the remainder of 2013. AIC's proposal, however, does just that. It advocates the use of a rate that includes the wage increase realized through the end of July, plus a reasonable estimate of the expected increase for the remainder of 2013.

Staff, in its rebuttal, justifies the use of a rate of 3.59% based on the actual increase in non-union wages through June 30, 2013 because Staff believed, at the time, any change in the rate for 2013 "should be minimal." (ICC Staff Ex. 11.0 (Rev.), p. 12:242.) But as shown by the data provided in AIC's surrebuttal filing, the wage rate for 2013 rose a full .10 percent from 3.59% to 3.69% in only a month. (Ameren Ex. 42.2.) The testimony of Ms. Langenhorst—the Director of Total Rewards who is responsible for overseeing the compensation and benefit programs for Ameren Corporation's (Ameren) subsidiaries—explains the additional increase to non-union

wages in July 2013 was primarily the result of promotional increases, plus a salary adjustment in one instance to reflect increased responsibility and market rate. (Ameren Ex. 42.0, p. 5.)

Staff argues 96.8% of eligible non-union employees had received raises by the end of June. (ICC Staff Ex. 11.0 (Rev.), p. 12.) It is true the 2013 increase in “Merit” is not expected to materially change for the remainder of the year, as those increases are effective April 1. But as Ms. Langenhorst points out, this ignores the promotions, salary adjustments and classification changes that regularly occur throughout the year, including the final six months of the year. (Ameren Ex. 42.0, p. 3.) As the data shows, these types of “All Other” adjustments will result in more than a “minimal” increase to non-union wages for the remainder of 2013. Indeed, by agreeing to use the rate increase as of the end of July 2013, Staff implicitly concedes this point. If the case schedule had allowed 2013 wage data to be provided as of the end of September or November, presumably Staff would have agreed it would be appropriate to use that rate as well.

History tells us AIC’s business needs will require promotions, reclassifications and other salary adjustments during the year, in addition to the annual merit increases employees receive. Ameren Exhibit 42.2 indicates that over the course of the past six years, from 2007-2012, the average increase in non-union wages resulting from promotions, market pay adjustments and reclassifications was 1.02%. This rate provides a reasonable approximation of the overall “All Other” increase AIC will experience in 2013. (Ameren Exs. 42.0, pp. 4-5; 42.1.) As of the end of July 2013, the increase in “All Other” non-union wages was .79%. (Ameren Ex. 42.2.) As shown in the chart below, replacing .79% with the average historical increase in “All Other” of 1.02% results in an overall rate for 2013 of 3.93%.

2013 Increases	6/15/13 actual	6/30/13 actual	7/31/13 actual	12/31/13 est.
Merit	2.91%	2.91%	2.91%	2.91%
All Other	0.67%	0.68%	0.79%	1.02%
Total	3.58%	3.59%	3.69%*	3.93%

Source	Ameren Ex. 27.1	Staff Ex. 11.0 Rev. Attach D	Ameren Ex. 42.2	Ameren Exs. 42.0, p. 5; 42.1.
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*The result of rounding: 2.905% + .788% = 3.693%.

The record demonstrates the actual and expected increases in “All Other” non-union wages AIC will experience in 2013 support the use of a rate higher than Staff’s proposed 3.69%. As discussed, the evidence supports the use of a rate of 3.93% as a reasonable and more accurate estimate of the expected increase in 2013. This rate also is consistent with the average rate of 3.94% that AIC experienced from 2007-2012, excluding the 2010 wage freeze year. (Ameren Ex. 18.0 (Rev.), p. 11.) The Commission should conclude no further adjustment is warranted.

3. Forecasted Labor Expenses

The record shows AIC provided supporting documentation and analysis to adequately support its forecasted test year labor expenses. The gas-only employee positions included in the test year are essential personnel for AIC’s workforce that are needed to perform the specific gas activities planned in 2014 and future years. AIC has demonstrated a consistent pattern of filling positions in 2013—a trend that will continue as AIC fills the remaining open gas-only positions included in the 2014 budget. The labor and benefits expenses associated with these positions are prudent and reasonable expenses to include in gas delivery rates set in this proceeding. Staff agrees the AG/CUB proposed adjustment to labor expense is not warranted. (AIC Cross Ex. 3 (Staff response to AIC-Staff 17.01); Tr. 429.) The Commission should reject the reduction in labor expense proposed by AG/CUB.

The record also shows AIC was diligent and timely responsive to the vast amount of discovery AIC received from AG/CUB on its forecasted expenses. The documentation, analysis, narrative explanations and workpapers provided to AG/CUB witness Mr. Brosch were significant and comprehensive, as was the extent of the Mr. Brosch’s methodical and meticulous review. The organization of the “large volume of information” AIC provided may not have been

as “nice and tidy,” as Mr. Brosch would have liked, (Tr. 424), but a general dislike for the presentation of the data Mr. Brosch received is not a sufficient basis, in and of itself, to reduce AIC’s forecasted spending. To expedite the Staff and Intervenor review of forecast assumptions and inputs in future rate filings, AIC offered in surrebuttal to provide certain workpapers with its direct case. The Commission should find AIC’s proposal appropriate and acceptable.

AIC Has Supported the Incremental Gas Positions in the Test Year Forecast.

AG/CUB proposes a sizable adjustment to test year labor expense to remove labor, benefits and payroll taxes associated with 43 gas-only employee positions that AIC intends to fill in 2013 and 2014. AG/CUB witness Mr. Brosch, however, hasn’t identified any specific position that he considers unnecessary to perform the work planned in the test year. (Ameren Ex. 36.0 (Colyer Sur.), p. 3; ICC Staff Ex. 11.0 (Rev.), p. 18.) And Mr. Brosch hasn’t identified any particular test year activity that he considers unnecessary or overstaffed. (*Id.*) Those omissions alone would sound the death knell for Mr. Brosch’s labor expense adjustment as unsupported. But Mr. Brosch also disregards all the evidence AIC submitted in support of the open positions. In this case, the record demonstrates the gas-only positions included in the 2014 forecast are essential to perform the test year work and shows AIC’s continual progress in filling the remaining open positions—evidence that Mr. Brosch doesn’t even address in his direct or rebuttal testimony. The Commission should agree with AIC and Staff that Mr. Brosch’s adjustment is not warranted and not supported by the substantial weight of the evidence.

In direct, AG/CUB witness Mr. Brosch proposed to remove labor expense and related estimated benefits and payroll taxes for 43 gas-only test year positions that were unfilled as of

the end of February 2013. (AG/CUB Ex. 1.3, p. 1.)² Mr. Brosch proposed this adjustment, even though AIC's responses to AG/CUB discovery requests—responses served before Mr. Brosch's direct was even filed—indicated the status and need for the open positions. (Ameren Exs. 22.3 (AG 12.03; 22.5 (AIC's response to data requests AG 13.01 and AG 13.02).) On rebuttal, Mr. Brosch's proposed adjustment did not change, other than a minor adjustment to reflect a gas-only employee vacancy factor AIC included in its forecast. (AG/CUB Exs. 5.0, p. 30; Ex. 5.1, p. 1.) Mr. Brosch kept essentially the same adjustment, despite the rebuttal testimony of AIC witness Mr. Colyer again confirming the need and status of the remaining open positions. (Ameren Ex. 22.0 (Rev.) (Colyer Reb.), pp. 18-24.) In total, Mr. Brosch proposes to remove \$3.61 million from AIC's revenue requirement—a significant adjustment to test year labor expense that remains wholly unsupported.³

The rebuttal testimony of Mr. Colyer reminded the AG/CUB of the information AIC already provided prior to Mr. Brosch's direct. For example, Ameren Exhibit 22.3 attached AIC's response to AG 12.03, which reported on the status of AIC's progress in filling 66 of the 87 open positions as of February 2013 that were expected to be filled in 2013. (Ameren Ex. 22.0 (Rev.), p. 12.) Ameren Ex. 22.3 (AIC's response to data request AG 12.03) also indicated AIC's plan to begin recruitment and interviews for the 21 other positions slotted to be filled in 2014. Included with Ameren Exhibit 22.3 was AG 12.03 Attach 4, a schedule that provided the proposed date to fill each 2014 position and the reason for the position. Ameren 22.5 included AIC's responses to data requests AG 13.01 and AG 13.02, which contained additional information on historical and

² AG/CUB witness Mr. Smith also proposes an adjustment to test year employee benefits that AIC has accepted. There is no record evidence that identifies the double counting and removal of benefits expense that would occur, if the Commission accepts Mr. Brosch's labor adjustment.

³ AG/CUB witness Mr. Brosch proposes an alternative adjustment to remove labor and benefits expense by \$1.238 million. (AG/CUB Ex. 5.0, p. 30.) That adjustment is no more reasonable.

projected headcount by resource management center (RMC). AG 13.01 Attach and AG 13.02 Attach were schedules that provided the actual 2012 and 2013 headcount to date by RMC, incremental projected 2013 and 2014 headcount, and again, reasons for the incremental positions. Of the many data requests attached to Mr. Brosch's testimony, the responses to AG 13.01 and 13.02 are noticeably absent.

In rebuttal testimony, Mr. Brosch continued to claim that AIC "is apparently unable or unwilling to produce any documentation supportive of the large increases in staffing that are proposed for the test year." (AG/CUB Ex. 5.0, p. 12:281-83.) Mr. Brosch further claims in his rebuttal that AIC "has failed to explain what additional staff is needed to do, and how these needs differ from the Company's current level of operation." (*Id.*, p. 26:640-41.) Those assertions simply aren't true, and fail to acknowledge the information and narrative explanations AIC previously provided in discovery and attached to Mr. Colyer's rebuttal. These explanations demonstrate that, although AIC is providing safe, adequate and reliable gas service at this time, staffing levels will not be sufficient to perform the additional work planned in 2014, without the incremental positions AIC plans to add in 2013 and 2014. These are not "discretionary" positions, as Mr. Brosch suggests. As the substantial weight of the evidence in the record in this case indicates, AIC considers these positions essential to perform specific, targeted work activities in the test year and beyond.

Ameren Exhibit 22.8 shows AIC's progress in filling open positions through the end of June 2013. As of July 1, 2013, AIC's headcount was at 664, with 42 budgeted and approved union and management positions to be filled by the end of 2013. (Ameren Ex. 22.8.) AIC's response to AG 20.13 and Ameren Exhibit 36.1 confirm the 32 gas positions filled in first six months of 2013 (or 23 filled since the end of February 2013) are net positions that account for

other positions becoming vacant and open due to attrition (e.g., retirements, transfers, or departures). (Ameren Ex. 36.0, pp. 6-7.) The surrebuttal testimony and exhibits of AIC witness Mr. Colyer summarized the need for the open positions and updated the current status of filling the open positions for the 87 gas-only positions that have been filled as of July 1, 2013. (*Id.*) Ameren Exhibit 36.1 identifies the gas-only positions that have been filled as of July 1, 2013. Ameren Exhibit 36.2 identifies the need and status of filling the remaining 2013 gas-only positions approved by management that were open as of July 1, 2013. Ameren Exhibit 36.3 identifies the need and status of the 2014 gas-only positions. Mr. Colyer's surrebuttal testimony even showed the scheduled recruiting events for the fall of 2013. (Ameren Ex. 36.0)

The primary conclusion the Commission should draw from this information is that AIC has identified positions critical to serving its gas customers and performing planned work in 2014 to continue to provide safe, adequate and reliable service, improve system integrity and strengthen pipelines and facilities. (*Id.*, p. 8.) Mr. Brosch claims AIC has failed to explain what the additional positions are needed to do. The discovery responses and schedules submitted in the record, however, make evident the description of the need for the positions and the work that AIC would not be able to perform if the positions went unfilled. Some of them are supervisors responsible for the inspection and oversight of construction, operations and maintenance activities performed by contractors in 2014 and beyond. (*Id.*, p. 12.) Many of them are gas journeymen or apprentices responsible for the core functions of construction, operation and maintenance of the gas system, as well as emergency response. (*Id.*) Some of them are engineers responsible for addressing the risks to system integrity. (*Id.*, pp. 13-14.) All of them will be needed, not only in 2014, but also in future years. (*Id.*, p. 16.) The evidence compiled in Ameren Exhibits 36.0 and 36.1-36.3, in particular, demonstrate AIC's commitment to filling

open positions and AIC's need for the remaining unfilled 2013 and 2014 positions. The Commission should find the substantial weight of the evidence opposes AG/CUB's adjustment.

AIC Has Committed to Providing Specific Forecast Workpapers with its Future Rate Filings.

Much ink has been spilt on the timing and availability of forecast "workpapers" in this proceeding. Despite this rhetoric, however, the record shows there were no material deficiencies in the information AIC provided in support of the forecast and its test year expenses. The direct filing complied with ICC filing requirements for future test years and identified the primary causes of the rate increase. Schedule G-5 disclosed the "principal" assumptions on which the test year forecast is based. (Ameren Ex. 32.0 (Rev.) (Getz Sur.), p. 7.) Schedule G-10 provided the 2014 projected payroll expense by FERC Account. (*Id.*, p. 5.) Schedule C-11.2 provided forecasted headcount data. (*Id.*) Schedule G-2 provided the Independent Accountants Report of the certified public accountants who reviewed AIC's assumptions and financial projections. (Ameren Exs. 18.0 (Rev.) (Getz Reb.), p. 23; 18.5.) AIC witness Mr. Getz's direct testimony explained the process for developing the test year forecast—the same process AIC had used to develop the forecast for its prior future test year gas rate case. (Ameren Exs. 3.0 (Getz Dir.); 18.0 (Rev.); pp. 15-17.) AIC witness Mr. Nelson's direct testimony identified gas distribution, transmission and storage expenses as a driver of the rate increase. (Ameren Ex. 1.0, p. 3.) AIC witness Mr. Colyer's direct testimony provided a bulleted list of incremental expenses producing the increase in gas distribution, transmission and storage O&M cost. (Ameren Ex. 7.0 (Rev.), pp. 56-57, 60, 64.) This information was more than sufficient to disclose (even if at a high level) the factors that were the basis for AIC's requested rate increase.

The grievance lodged by AG/CUB, however, is that AIC could not produce a "detailed" set of "supporting" "workpapers" that identified all cost "inputs." For a utility the size of AIC,

where in excess of 130 employees are involved in the budget process, there is not an exhaustive set of centrally compiled, backup workpapers that provide working formulas for every cost estimate that ultimately factors into AIC's annual budget. (Ameren Ex. 32.0 (Rev.), p. 3.) AIC reasonably relies upon the institutional experience and expertise of individual employees, who as a function of their day-to-day responsibilities, forecast the anticipated needs of their respective business departments and enter cost estimates in corporate budget systems. (*Id.*) The Utilities International Planner (UIP) software is a cost-effective, standardized budgeting tool that all Ameren Corporation segments must use to centralize data storage and retention and to provide data in a consistent, sufficiently detailed format for management's review. (*Id.*, p. 4.) In the past, it may have been common to exchange Excel files or other electronic spreadsheets used to develop and document the predecessor utilities' budgeted costs. (*Id.*, p. 5.) That is no longer the case. The central UIP system now grants multiple users the ability to update forecast information and retain the data for variance and financial reporting. (*Id.*) This streamlines the budgeting process, allowing management to collect budget information and make decisions in less time and at a lower cost. (*Id.*) The individual BPS or Director may decide to use an excel worksheet to formulate or support cost projections. (*Id.*) But even in that instance, there is not a central database that collects and stores backup Excel worksheets for each cost estimate. (*Id.*)

The absence of a set of backup Excel files readily available, however, did not prevent AIC from providing more supporting detail for forecasted distribution expenses. The information AIC provided in its direct filing, in fact, was only the tip of the iceberg. In subsequent discovery, AIC supplied additional information in support of forecasted expenses and inputs. (Ameren Exs. 18.0 (Rev.), pp. 17-18; 18.4.) The information AIC provided during discovery included:

- Monthly actual and authorized total employees for AIC and AMS by function with descriptions of significant gas-only employee changes from February 2013 to projected December 2014 (AG 1.03 and AG 1.03R);
- Actual non-payroll expenses by account major for 2011, 2012 and YTD 2013 compared to projected 2014 with functional group variance explanations between 2012 and 2014 of 15% or more (AG 1.07);
- Workpapers used to budget blanket work order labor, materials, and vehicles; workpapers used to budget division payroll hours; average staffing counts by RMC for 2012-2014; total labor hours by RMC for 2012-2014; total dollars by utility and costs categories for 2012-2014; and direct union and non-union labor by O&M and capital account for 2012-2014 (AG 5.01 and AG 5.01R);
- Actual gas-only headcount for YTD March 2013 and monthly forecasts through December 2014; job description and timing of proposed staffing for Gas Operations RMC's for 2013 and 2014; detailed revenue requirement calculation for gas-only forecasted headcount; and AMS staffing by month from February 2013 to December 2014 (AG 5.03 and AG 5.03R);
- Wage rate calculations for each payroll department by month from May 2012 to December 2014; and 2014 Gas O&M labor forecasted expense by RMC, account, activity and resource type (AG 5.04);
- Flowcharts documenting each step of the O&M account derivation process (AG 5.05);
- 2014 non-labor gas O&M expense by RMC, account, activity and resource type (AG 5.07);
- Summation of RMC budgets for all resources after adjustments for 2013 and 2014 (AG 5.08);
- 2011 and 2012 actual gas O&M data and 2013 and 2014 forecasted gas O&M data by account and resource type (AG 9.03).

This information provided the starting point for Mr. Brosch or other experts to further test the reasonableness of projected expenses. (Tr. 108-09.) For example, in AIC's response to data request AG 9.03, AIC produced an Excel workpaper (AG 9.03 Attach) that contained 2013 and 2014 forecasted gas O&M data from the budget system, along with 2011 and 2012 actual gas O&M data by FERC account and resource management center (RMC). (Ameren Ex. 32.0 (Rev.), p. 5.) This worksheet showed the forecasted increase (or decrease) in 2014 for each account

compared to the most recent historical data for that account by resource type. (*Id.*) This Excel workpaper allowed the viewer to see not only the overall increase for a particular account, but also the projected increases and decreases by resource type within that account. (*Id.*)

Even the bulleted list above, however, does not represent the universe of information produced. As discussed elsewhere in response to Mr. Brosch's specific adjustments, further information—often in Excel worksheet form—was compiled and provided in discovery on specific gas-only labor positions and gas distribution expenses. (Ameren Exs. 18.0 (Rev.), p. 19; 22.3-22.6; 22.7 (Rev.).) The data and explanations provided throughout the case were vast, with over 600 AG questions received and responded to before AG/CUB even submitted its direct testimony. (Ameren Ex. 18.0 (Rev.), p. 23.) When necessary and appropriate, responding to AG/CUB's requests required consulting with the individuals responsible for the operational activity. (Tr. 106.) The discovery process drilled down to focus on particular estimates for volume of work to be performed, contractor bid estimates, and justifications for particular open positions. (Ameren Exs. 36.1(Rev.); 36.2 (Rev.); 36.3 (Rev.); AG/CUB Exs. 5.7-5.12 (AIC's responses to data request series AG 20).) This process—although at times laborious—succeeded in compiling “workpapers” that recorded the various assumptions and inputs behind the incremental test year staffing positions and gas distribution expenses that AG/CUB now seeks to disallow.

The information AIC intends to compile for future rate case forecasts and provide with its direct filings will be similar in form. The major difference will be the timing of the submissions. Whereas in this case AIC identified incremental gas-only staffing and significant RMC and account variances during discovery, AIC intends to provide comparable information upfront with its direct filing. Specifically, AIC has committed to include the following information in its

direct filing:

- Gas only headcount—actual versus monthly projections through the test year; and
- Gas O&M forecasted test year expense by FERC account and resource type.

(Ameren Ex. 32.0 (Rev.), p. 8.) This information was made available to Staff and Intervenor during discovery in this proceeding. (Tr. 104-105.) AIC also commits to produce certain forecast workpapers with future rate filings, in addition to required filing schedules, to make more transparent the underlying assumptions and inputs for forecasted labor and non-labor expense:

- AIC BPSs and Directors will provide a comparison of the most recent calendar year of actual gas O&M expenses with forecasted test year expenses, with written explanations and justifications of significant variances in excess of escalation factors – by resource group within an RMC or roll-up department; and
- AIC Directors will provide gas-only headcount staffing forecast with justification of any new employees positions projected to be filled between the filing of AIC's direct case and the end of the year.

(*Id.*) Again, similar information was provided in this proceeding for the gas-only staffing and gas distribution expenses being contested. (Tr. 104-105.) While providing these workpapers upfront with direct filings will require additional resources, it is AIC's hope the effort will reduce the number of, and time spent on, follow-up data requests. This list is also not intended to identify all information AIC would have available for Staff and Intervenor review, including other information produced in this proceeding. It is only intended to identify the significant information Staff and Intervenor likely will want to review. This list is also not a concession that AIC's forecasted costs in this case were not adequately supported. AIC's testimony, exhibits and discovery supplied voluminous, detailed information in support of its gas-only staffing and incremental gas distribution expenses. The goal here is to improve the documentation and discovery process to allow for an efficient, cost-effective review. The

Commission should find AIC's proposal to compile and submit the stated forecast information with its future rate filings to be reasonable and appropriate for its next future test year case.

4. Forecasted Non-Labor Expenses

AG/CUB proposes six discrete adjustments to forecasted distribution non-labor expense: a \$287,500 reduction in distribution leak repair expense; a \$600,000 reduction in high pressure distribution right-of-way clearing expense; a \$50,000 reduction in sewer cross bores inspection expense; a \$250,000 reduction in "Watch and Protect" expense—a 3rd party damage prevention program; a \$300,000 reduction in corrosion control painting expense; and a \$160,000 reduction in JULIE locate request expense. (AG/CUB Ex. 5.1, p. 2.) In total, AG/CUB seeks to remove \$1,647,500 in forecasted non-labor expense. Staff, in contrast, adopts only one of AG/CUB's non-labor expense adjustments—the \$300,000 reduction in painting expense. (AIC Cross Ex. 2 (Staff response to AIC-Staff 16.01).) For each activity, AG/CUB and Staff agree with AIC that the activities are prudent and *some* amount of incremental spending is reasonable. The question is *how much* incremental spending is reasonable. The testimony and exhibits of AIC witness Mr. Steven Colyer support AIC's projected spending for these distribution activities as a reasonable amount of incremental expense to support safe, adequate and reliable gas delivery service in the test year. AG/CUB's proposed adjustments, and the painting adjustment joined by Staff, are not appropriate. The Commission should find the amount of non-labor expense AIC has requested to be reasonable, just and recoverable in gas delivery rates.

In its direct filing, AIC witness Mr. Colyer identified a bulleted list of distribution activities to be performed in 2014 with the approximate amount of projected expense included in the test year for each activity. (Ameren Ex. 7.0 (Rev.) (Colyer Dir.), pp. 56-57.) This bulleted list contains the six distribution activities to which AG/CUB proposes an adjustment to forecasted non-labor expense. In response to discovery requests in the proceeding, AIC provided

the AG with the following data and information regarding these activities and associated projected expenses:

- In response to AG data request 12.12, AIC provided additional information for the bulleted items identified in Mr. Colyer's direct testimony: a breakdown of the estimated expense by Resource Type (RT) and Resource Management Center (RMC), an explanation of how the test year expense for that activity was estimated, and a comparison with 2011 and 2012 expenses with explanations for known variances. (Ameren Ex. 22.4.)
- In response to AG data request 15.03, AIC provided more detail on the assumptions and data underlying the estimated costs discussed in AIC's response to AG data request 12.12. (Ameren Ex. 22.6.)
- In response to AG data request series 16, AIC provided more detail on information provided in AIC's response to AG data request 15.03, concerning AIC's projected costs for distribution leak repairs (AG 16.05), high pressure distribution right of way clearing (AG 16.07R), the "Watch and Protect" damage prevention program (AG 16.08R), corrosion control painting (AG 16.09R), and JULIE locate requests (AG 16.10). (Ameren Ex. 22.7 (Rev.).)
- AIC also provided additional information on sewer cross bores inspections in response to AG data request 3.12. (AG/CUB Ex. 5.10, pp. 1-2.)
- Even more information on the contested non-labor expenses was then provided in response to AG data request series 20: AG 20.17 (leak repairs) (AG/CUB Ex. 5.08); AG 20.19 (right of way clearing) (AG/CUB Ex. 5.09); AG 20.20 (cross bores) (AG/CUB Ex. 5.10, pp. 3-4.); AG 20.23 and AG 20.24 (corrosion control) (AG/CUB Ex. 5.11, pp. 1-5); and AG 20.25 (JULIE locates). (*See* AG/CUB Ex. 5.12).
- In response to Staff data requests DGK 22.01, DGK 25.01 and DGK 25.02, AIC provided additional data on historical and projected painting. (Staff Cross Ex. 2.)
- Besides discovery narrowly tailored to those six distribution activities, in response to Staff data request ENG 3.01 (cross-referenced in AIC's response to AG 9.04), AIC also provided variance explanations for a number of distribution, transmission and storage accounts, with an explanation why the test year amount is an accurate representation of the future expense. (Ameren Ex. 22.2.)

The data, information and explanations provided in these discovery responses and the narrative and analysis provided in the rebuttal testimony (Ameren Ex. 22.0 (Rev.)) and surrebuttal testimony (Ameren Ex. 36.0) of AIC witness Mr. Colyer—AIC's Senior Director for

Gas Operations and Services—confirms the reasonableness and prudence of the projected non-labor expenses AIC has included in the test year forecast for these six distribution activities.

Distribution Leak Repairs.

AIC has budgeted \$1,300,000 in test year expense for additional distribution leak repairs. Accelerating the number of repairs of leaking service tee caps and leaking mains and services, two of the highest relative risks facing distribution utilities, is intended to reduce the threats from leaks. (AG/CUB Ex. 5.08 (AIC's response to data request AG 20.17(e)).) The data presented in AG 20.17 and AG/CUB Ex. 5.0 (Fig. 2) indicates the number of added and open leaks remains significant. In 2010, there were 3059 new leaks added and 950 leaks open at year-end. In 2011, there were 2994 new leaks added and 1122 leaks open at year-end. (*Id.*) And in 2012, there were 3327 new leaks added and 1302 leaks open at year-end. (*Id.*) Through mid-July 2013, an additional 1901 new leaks have been added, with only 1655 repaired, leaving an additional 246 open leaks already this year. (*Id.*) If added and open leaks continue during 2013 at the current pace, there will be nearly 3800 leaks added and almost 500 additional open leaks by year-end (resulting in 1800 total open leaks at year-end 2013). That would mean AIC would have experienced, on average, close to 3300 leaks added between 2010-2013 and 850 additional open leaks between year-end 2010 (950) and year-end 2013 (1800). The reduction in projected expense for distribution leak repairs proposed by AG/CUB will reduce the number of additional leak repairs AIC could complete in the test year.

The incremental funding included in the test year forecast for this activity was budgeted in 2014, as part of AIC's Distribution Integrity Management Program (DIMP), to permit AIC to address the growing buildup of unrepaired leaks and repair additional leaks per year going forward. (Ameren Exs. 22.0 (Rev.) (Colyer Reb.), p. 27; 36.0 (Colyer Sur.), pp. 17-18.) The cost to fix any particular leak varies based on a number of factors, including the leaking

component and the depth and location of the leak. (AG/CUB Ex. 5.08 (AIC's response to data request AG 20.17(b)).) The forecasted amount, however, includes incremental funding to repair both identified leaks on gas service tee caps (at an average estimated cost of \$1500 per repair) and identified main or service leaks (at an average estimated cost of \$3000 per repair). (Ameren Ex. 22.0 (Rev.), p. 28.) AG/CUB's estimated incremental expense (\$1,012,500) would permit AIC to repair an additional volume of 125 service tee leaks (\$187,500) and 275 mains or service leaks (\$825,000), above historical levels.

The amount of incremental funding proposed by AG/CUB is insufficient. Although AG/CUB's lower estimate would still permit AIC to give more attention to future added leaks, making 400 incremental repairs a year likely would only address the incremental number of leaks that are added and remain open at year-end going forward, absent additional spending. It would not be enough to address and reduce the backlog volume of identified leaks that already will be added, open and unrepaired at year-end 2013. Even the high end of AIC's conservative volume projections would be insufficient to address both future and present open leaks. The data thus supports additional spending above AG/CUB's estimated cost. AIC's higher forecasted spending (\$1,300,000) would permit AIC to conduct, on average, 200 service tee leaks (\$300,000) and 325 mains or services leaks (\$975,000), above historical levels. The Commission should approve the amount of forecasted expense in the test year to allow for that annual level of leak repairs.

High Pressure Distribution Right-of-Way.

AIC has budgeted \$1,200,000 in test year expense to clear and maintain the right-of-way (ROW) for wooded sections of high-pressure distribution (HPD) pipelines. DIMP regulations require utilities to address risks associated with gas distribution facilities, the highest risk of which is third party excavation damage. (AG/CUB Ex. 5.09 (AIC's response to data request AG

20.19(e)).) The HPD ROW clearing program will improve AIC's ability to perform leak surveys, provide better access for emergency and Watch and Protect activities, provide better visibility of easements, provide better marking of pipelines, mitigate excavation damage, maintain ROW clearance, reduce ROW encroachments, maintain proper pipeline signage, and provide for well-defined aerial boundaries of pipeline locations. (Ameren Exs. 22.0 (Rev.), p. 30; 22.7 (Rev.), p. 16 (AIC's response to data request AG 16.07R(a)).) Clearing ROW for critical HPD facilities is an essential and prudent reliability and integrity management initiative.

The forecasted amount for HPD ROW activities includes an estimated, annual cost of \$225,500 for HPD ROW maintenance costs for mowing, spraying and installing line markers. (AG/CUB Ex. 5.09 (AIC's response to data request AG 20.19(a)).) That forecast is based on an average cost per mile of \$4100, based on 2011 costs (42 miles at a cost of \$226,547) and 2012 costs (181 miles at a cost of \$670,865) to maintain transmission ROW, times the estimated 55 miles per year of HPD pipelines requiring maintenance. (*Id.*) This forecasted amount also includes an estimated, annual cost of \$975,000 for HPD ROW clearing of wooded areas. (*Id.*) This is based on an average cost per mile of \$13,000, based on 2009 costs (9.98 miles of ROW at the cost of \$358,287) and 2010 costs (25.07 miles of ROW at the cost of \$89,975), times the 75 miles per year AIC plans to clear over the next 10 years. (*Id.*)

AG/CUB's proposal to arbitrarily reduce the amount of funding for HPD ROW clearing and maintenance by \$600,000 will result in the extension of AIC's ten-year clearing plan to a timeline of 20 years or longer. (Ameren Ex. 36.0, p. 19.) AG/CUB's basis for its adjustment is no less arbitrary: the exclusion of 2009 transmission line data that illustrates the significant and varied cost of clearing wooded areas. (*Id.*) The 2010 data solely relied upon by Mr. Brosch represents a year when transmission line clearing was nearing completion and less wooded areas

were encountered per mile. (*Id.*) Moreover, the average cost per mile in 2007 (27.82 miles at an average cost of \$16,200.27 per mile) and in 2008 (7.79 miles at an average cost of \$17,873.50 per mile) reinforces the use of 2009 data as representative of clearing costs. AG/CUB's sole reliance on 2010 data, on the other hand, yields an inaccurate forecast. The Commission should approve the amount of HPD ROW clearing costs in the test year forecast.

Sewer Cross Bores Inspections.

AIC has identified legacy sewer cross bores as a potential threat to the integrity of the distribution system. (Ameren Ex. 7.0 (Rev.) (Colyer Dir.), p. 14.) In 2011 and 2012, AIC performed some preliminary cross bore inspections; however AIC believes the level of inspections should be increased. (*Id.*; AG/CUB Ex. 5.10, pp. 1-2 (AIC's response to data request AG 3.12).) AIC intends to implement additional legacy cross bores inspections in 2014, and in future years, focusing on inspecting facilities installed prior to 2000. (*Id.*) AIC intends to inspect between 2,000 and 2,500 facilities (services) in 2014. (Ameren Ex. 22.0 (Rev.), p. 33.) Based on historical costs in 2012 for contractors to perform inspections, AIC projected a cost of approximately \$250 per inspection. (*Id.*) AIC's forecasted costs of \$550,000 will allow AIC to inspect approximately 2,220 services. (Ameren Ex. 36.0, p. 21.) The costs proposed by AIC are reasonable given the historical costs experienced to perform inspections and the additional scope of inspections planned in 2014 and beyond. AG/CUB's proposed adjustment to reduce test year spending by \$50,000 is arbitrary and would not even support the average number of service inspections planned for 2014.

Watch and Protect Damage Prevention.

The Watch and Project program, which began in 2011, consists of field monitoring of excavations (a "stand-by") being performed when an excavation is near or crossing high pressure gas main facilities or gas mains that are 8" or larger in diameter. (Ameren Ex. 22.0 (Rev.), p. 34.)

The program was expanded to also include a stand-by for critical locations such as schools, hospitals and nursing homes, as well as for excavation activities related to directional boring or performed by new excavators. (*Id.*) The Watch and Protect program has proven effective at reducing excavation damage and is a prudent mitigation measure to reduce risk related to one of the top threats to the integrity of the distribution system. (*Id.*, p. 35.) AIC's forecasted cost for this activity for the test year (\$650,000) is based on a projected stand-by volume of approximately 4000 and an estimated confidential contractor cost per stand-by that includes a wage and benefit premium paid in accordance with certain labor contract requirements. (*Id.* (Confidential & Proprietary), p. 34; Ameren Ex. 36.0 (Confidential & Proprietary), pp. 22-23.)

AG/CUB does not take issue with the staffing needed to support the program or AIC's forecasted volume for 2014. Rather, AG/CUB's proposed reduction (\$250,000) is based solely on its estimated contractor cost per stand-by. AG/CUB's estimated cost, however, is arbitrary and has no basis in the more recent, actual average cost data supplied by AIC in discovery. The actual contractor costs AIC has incurred to date for stand-by invoices in 2013, the negotiated stand-by base rates, the applicable wage and benefit premium, and the actual 2013 average stand-by time, support AIC's estimated contractor cost and the projected expense for this activity for the test year. (Ameren Ex. 36.0, pp. 22-23.) The arbitrary cost per stand-by used by AG/CUB is not representative of expected costs in 2014 and should not be used to support an adjustment.

Corrosion Control Painting.

The planned corrosion control activity for the test year consists of painting AIC's extensive aboveground gas facilities that are subject to atmosphere corrosion. (Ameren Ex. 22.0 (Rev.), p. 35.) The maintenance of coatings to prevent atmospheric corrosion is a prudent regulatory requirement that provides a benefit to customers by extending the useful life of the facilities. The two largest groups of aboveground facilities are group 1 residential and small

commercial meter sets (approximately 900,000) and group 2 regulator stations and large customer meter sets. (*Id.*) AIC is planning a 10-year expansion of its non-labor contractor painting work to begin in 2014, due to an identified backlog of facilities that required painting. (*Id.*) This expansion will require AIC to increase non-labor expense for this activity above recent historical spending. (*Id.*) For group 2 larger facilities, AIC plans to spend, on average, \$700,000 annually in non-labor painting expense starting in 2014. (*Id.*) For group 1 smaller facilities, AIC plans to spend an average of \$300,000 annually in non-labor painting expense starting in 2014. (*Id.*, p. 36.) In the test year, for the larger group 2 facilities, AIC plans to invest \$200,000 in small gas regulator station recoating, \$250,000 in medium size regulator station coating improvements, \$100,000 allocated for the large sites and the remaining \$150,000 to be used for industrial gas metering facilities. (*Id.*) Depending on the size of the group 2 facility to be painted, costs for blasting, recoating and lead abatement for an individual group 2 facility can range from \$2,000 to \$3,500 per site for smaller regulator stations to \$4,000 to \$10,000 per site for medium size facilities (depending on piping conditions, configuration and footprint) and \$50,000 or more for large sites such as gate stations. The costs incurred in 2013 to date on painting medium size regulatory stations (\$15,000 per site) demonstrate the varied and higher expense for larger group 2 facilities. (ICC Staff Cross Ex. 2 (AIC response to DGK 25.01).)

AG/CUB, however, proposes an adjustment to reduce AIC's test year spending on larger group 2 facilities by \$300,000. (Ameren Ex. 36.0, p. 24.) As noted above, Staff agrees with the AG's revised rebuttal adjustment to reduce test year expense for this activity by \$300,000. (AIC Cross Ex. 2 (Staff response to AIC-Staff 16.01).) The reduction proposed by AG/CUB and joined by Staff, however, will not allow AIC to perform the necessary painting on group 2 regulator stations and large meter sets at a pace that would prevent an ongoing backlog or

gradually reduce the existing backlog over a 10-year period. (Ameren Ex. 36.0, p. 24.) The prioritized and tracked backlog of regulator stations in need of painting would not all occur in 2014, as implied by AG/CUB. (*Id.*) Rather, AIC intends to begin painting the regulator stations and large meter sets on a cycle that provides better long-term and proactive maintenance of protective coatings. (*Id.*) Reducing the forecast for this activity will result in a cycle where repainting may not occur until corrosion has already begun, which would increase backlog and result in higher painting costs over the long term. (*Id.*) Given the above-ground facilities in need of painting, a projected annual expense of \$1.0 million is reasonable for both group 1 and group 2 facilities. The Commission should reject the recommendations of AG/CUB and Staff to lower non-labor painting expense for group 2 facilities.

JULIE Locate Requests.

AIC is required to receive and respond to Joint Utility Locating Information for Excavators (JULIE) requests to identify underground facilities. (Ameren Ex. 22.0 (Rev.), p. 37.) The costs associated with being a member of JULIE and locating gas facilities are mandatory; thus, the associated non-labor is not discretionary or avoidable. (*Id.*) AIC forecasts the number of JULIE locates to increase in future years, as construction and new business increases. Actual JULIE requests in 2011 and 2012 and expected JULIE requests in 2013 show an increase of 5.5-6% per year in ticket requests, due in part to an increase in new business electric and gas service. (*Id.*, p. 38.) The 2014 forecasted amount assumed approximately 240,000 gas locate requests—a modest increase of 5000 locates above the volume of requests performed by AIC in 2012. (*Id.*) Based on a cost of \$13 per locate including ticket costs, the 2014 forecast estimated a non-labor expense for the gas portion of JULIE locates of approximately \$3,100,000. (*Id.*)

As AG/CUB acknowledges, the most recent available volume and cost projections from AIC's locate contractors support an increase in non-labor gas expense for this activity at nearly

the amount AIC forecasted. (Ameren Ex. 36.0, p. 25.) AG/CUB, however, proposes a reduction of \$160,000 that is minimal relative to the overall cost of the activity. The Commission should reject this proposed reduction. The potential remains that a change in conservative cost and volume assumptions may cause actual expense in 2014 or 2015 to be higher than current projections from locate contractors. (*Id.*) Other non-labor distribution activities—including cross bores inspections and ROW clearing—also may face higher than forecasted costs that would make up or exceed the difference between AIC’s and AG/CUB’s estimates. Based on the minimal variance, an adjustment to slightly lower one projected expense item is not appropriate.

Conclusion.

As demonstrated by the record evidence submitted in this proceeding, AIC’s projected non-labor expenses for the six test year activities identified by AG/CUB are prudent and reasonable in amount. An Order requiring reduction in planned spending for distribution leak repairs, HPD ROW clearing, cross bore inspections, Watch and Protect stand-bys, corrosion painting, or JULIE locate requests would remove dollars that would be allocated to improving and strengthening the reliability and integrity of AIC's gas facilities and system. The Commission should find the substantial weight of the evidence supports AIC’s projected non-labor distribution expense and should not adopt any of the reductions proposed by AG/CUB.

5. Rate Case Expense

AIC estimates it will incur \$2.413 million to prepare and litigate this rate case. (Ameren Post-Sur. Ex. 31.11, p. 331 (Sch. C-10).) That projected expense includes the cost of outside attorneys and technical experts to support and defend the filing, as well as the cost of the independent audit of AIC’s test year projections required by the Commission’s Part 285 rules. It also includes other, incremental costs, such as copying and printing, that AIC would not incur but for the instant proceeding. (*Id.*, pp. 1-5, 333 (AIC response to JMO 1.01; Ameren Sch.

WPC-10).) In support of its total projected rate case expense, AIC submitted extensive documentation and testimony. (Ameren Post-Sur. Ex. 31.11; Ameren Exs. 17.0 (Rev.) (Stafford Reb.), pp. 9-12; 31.0 (Stafford Sur.), pp. 11-12.) The evidentiary record contains over 300 pages of invoices, proposals, contracts, narrative discovery responses, and schedules that support both the expense actually incurred by AIC to date and that which AIC projects it will incur through the final stages of this proceeding. (Ameren Post-Sur. Ex. 31.11.) Based on that evidence, the Commission should find AIC's projected rate case expense of \$2.413 million just and reasonable, and it should specifically and expressly find the total expense AIC projects it will incur to compensate outside attorneys and technical experts to prepare and litigate this rate case just and reasonable pursuant to Section 9-229 of the Act. 220 ILCS 5/9-229.

Staff agrees for the most part, and no other party contests AIC's total rate case expense projection. With one exception, Staff also recommends that the Commission expressly conclude that AIC's projected level of rate case expense is just and reasonable pursuant to Section 9-229. (ICC Staff Ex. 12.0, p. 5.) The point of disagreement between AIC and Staff relates to a single component of the expense—the projected cost for AIC to engage consultants to assist it in rebutting issues raised by Staff and Intervenor during the course of the proceeding. Staff would limit AIC's cost recovery to those consultants engaged at the time of AIC's rebuttal filing. (ICC Staff Exs. 3.0, p. 3; 12.0, p. 3.) Staff took the same position in Docket 11-0767. And, there, the Commission rejected it. *Ill.-Am. Water Co.*, Docket 11-0767, Order, p. 53 (Sept. 19, 2012). The Commission should likewise reject Staff's position here. Staff's position is simply not reasonable.

Staff's position ignores the prudence of AIC's rate case expense projection. Based on its rate case experience, AIC included in that projection the cost to obtain the consultant services

necessary to counter new issues raised by another party during the rebuttal stages of the proceeding. (Ameren Ex. 17.0 (Rev.), p. 10.) The fact is that AIC routinely requires the services of rebuttal consultants in its rate cases. (Ameren Post-Sur. Ex. 31.11, pp. 1, 3-4, 328 (AIC responses to JMO 1.01 & 1.10) (*citing* Dockets 12-0001 (Ameren Ex. 18.0 (Warren Reb.)), 11-0279, et al. (Cons.) (Ameren Exs. 36.0 (Rygh Reb.) and 37.0 (Warren Reb.)), and 09-0306, et al. (Cons.) (Ameren Ex. 46.0 (Sosa Reb.))).) In this case, AIC *did* engage rebuttal consultant services. (Ameren Ex. 17.0 (Rev.), pp. 9-10.) And one Staff witness suggested he might file “supplemental rebuttal testimony,” breeding the potential for additional, late-stage rebuttal consultant services. (ICC Staff Ex. 12.0, p. 4.) Prudent planning requires that AIC anticipate the services of additional consultants through the late stages of a rate case, and that it project a level of rate case expense that sufficiently reflects the attendant cost; this case is no exception. (Ameren Ex. 17.0 (Rev.), p. 10.) It is unreasonable to penalize AIC for its prudence.

Staff’s approach to AIC’s projected rebuttal consultant expense—permitting only that which has materialized as of AIC’s rebuttal filing—effectively precludes AIC from fully recovering a potentially necessary component of rate case expense based solely on the timing of the expense. AIC will be forever precluded from recovering for the services of a consultant engaged after Staff and Intervenor have filed their rebuttal testimony in a rate case if the Commission adopts this approach. Staff’s approach also fails to consider that, while one component of rate case expense may ultimately be less than projected, another may ultimately be more. In this case, for example, the actual costs associated with several completed stages of the proceeding—i.e., preparation of the filing requirement schedules and audit of the forecasted test year—*exceed* AIC’s initial projections of those rate case expense components. (Ameren Ex. 31.0, p. 12.)

Staff's position on this issue effectively ignores the later stages of a rate case proceeding in assessing the rebuttal consultant component of rate case expense. Put simply, that approach is problematic and unreasonable. The Commission should reject it as it did in Docket 11-0767. The Commission should approve as just and reasonable AIC's total projected level of rate case expense of \$2.413 million.

6. Charitable Contributions

AIC, Staff and AG/CUB recommend different amounts of charitable contribution expense for approval. But only AIC's proposal is representative of the charitable contributions AIC will make in 2014. Staff and AG/CUB's proposals are based solely on cherry-picked historical amounts AIC has explained are unreasonably low and not an accurate depiction of past or future spending. Projected expenses in a future test year should not be determined simply by applying an inflation factor to historical figures, without consideration of the context in which the prior spending was made. That, however, is exactly what both Staff and AG/CUB are asking the Commission to do. The Staff and AG/CUB proposals would remove \$202,000 and \$135,000 respectively from AIC's budgeted 2014 contributions (\$519,000). In either case, the Commission would be approving *much less* than what is *currently* reflected in rates (\$482,000).

Section 9-227 of the Public Utilities Act (Act) tasks the Commission with determining a reasonable and representative amount of contributions to include in gas delivery rates. The evidence discussed below supporting AIC's proposed contributions—the Commission's order in Docket No. 11-0282 (AIC's last future test year gas rate case), AIC's prior spending in 2007-2009, the amount of contributions recently approved for the North Shore and Peoples utilities, AIC's explanation of lower spending in 2010-2012, and its commitment to increase contribution spending in 2014 above those levels—all this evidence will demonstrate AIC has proposed an amount of charitable contribution expense to include in rates that is reasonable, consistent with

the Commission's recent decisions, and reflective of the expense AIC will incur in the test year.

The purpose of a test year is to develop expenses and revenues representative of the period in which the rates to be determined in the proceeding will be effective. *Cent. Ill. Pub. Serv. Co.*, Docket 91-0193, 1992 Ill. PUC LEXIS 81, * 210 (Mar. 18, 1992) (finding Staff's projected 1992 capital structure represented the capital structure that would actually be supporting electric and gas rate base during the test year), *aff'd*, *Cent. Ill. Pub. Serv. Co. v. Ill. Commerce Comm'n*, 243 Ill. App. 3d 421, 440-44 (1993). In this proceeding, AIC seeks to recover the gas-allocated portion of the charitable contribution expense AIC has budgeted to spend in the 2014 test year. That amount is \$519,000. (Schedules C-7 & C-2.13.) And it is based directly on the amount the Commission approved in AIC's last future test year gas rate case, Docket 11-0282. (Ameren Ex. 35.0 (Kennedy Sur.), p. 6.) As AIC witness Tucker Kennedy—Director of Communications and Public Relations and responsible for overseeing AIC's contribution spending—explained, AIC aligned its contribution budget to the amount the Commission already deemed reasonable to recover in rates in AIC's prior gas rate case. (*Id.*) The increase in charitable contribution expense that AIC now seeks to recover in rates is minimal: \$37,000 more than what AIC is currently recovering in rates. (Ameren Ex. 21.0 (Rev.) (Kennedy Reb.), p. 5.)

Staff, however, does not want AIC to recover the amount of contributions AIC intends to spend in the test year. Staff wants AIC to recover a normalized amount of contributions based on a three-year average of prior spending. (Ameren Ex. 21.0 (Rev.), p. 6.) Staff's averaging proposal, however, *relies solely* on recent years of spending (2010-2012) that AIC has explained are outliers. (Ameren Ex. 35.0, p. 6.) Staff ignores AIC's explanations why contribution spending was materially lower in those years. (Ameren Ex. 21.0 (Rev.), pp. 8-10.) Staff rejects

the Commission's prior methodology for calculating a reasonable amount of contributions to include in rates. (Ameren Ex. 35.0, p 5.) And Staff *gives no weight* to AIC's prior spending (2007-2009), the amount of contributions the Commission recently awarded to the North Shore and Peoples utilities, or AIC's stated commitment to increase its contribution spending well above the average amount spent in 2010-2012. (*Id.*, pp. 4-7.) These are fundamental flaws that make Staff's recommendation to reduce AIC's proposed amount arbitrary and unreasonable.

First, Staff's methodology is inconsistent with the methodology Staff recommended and the Commission applied in AIC's last future test year case. In Docket 11-0282, AIC sought to recover its 2012 forecasted costs. (Ameren Ex. 21.0 (Rev.), p. 5.) In that proceeding, the Commission accepted Staff's proposal to limit AIC's contributions to a 2% increase over the utility's previous year's (2011) budget. (*Id.*) After that order was issued in January 2012, AIC reduced and realigned its contributions budget. (Ameren Ex. 21.0 (Rev.), p. 6.) The 2012 budget was revised based on the amount recovered in Docket 11-0282. (*Id.*) The realigned 2012 budget became the baseline AIC used to forecast contributions for 2013 and 2014. (*Id.*)

Staff claims this realignment shows a "willingness" by AIC "to forgo its commitment" to spend its contribution budget, when ratepayers are not funding the full amount. (ICC Staff Ex. 10.0 (Rev.), p. 13.) Not true. The realignment shows AIC took guidance from the authorized amount as the baseline for future budgeted contributions and a benchmark for a reasonable amount of contributions to include in rates. (Ameren Ex. 35.0, p. 6.) If anything, Staff's proposal shows a "willingness" by Staff "to forgo" its prior methodology. If Staff had advocated the same averaging methodology for calculating a reasonable amount in Docket 11-0282 that Staff is advocating now, AIC would *already* be recovering \$560,000 in contribution in gas delivery rates or \$41,000 *more than* AIC is asking for in this proceeding. (Ameren Ex. 21.0

(Rev.), p. 7.)

Second, Staff's averaging methodology arbitrarily relies only on the three lowest years of expense (2010-2012) in a six-year period (2007-2012). In 2010, AIC's contributions dropped 35%. (Ameren Ex. 35.0, p. 6.) In 2011, AIC's contributions dropped another 27%. (*Id.*) These "low-water marks" in the recent history of AIC's contribution spending are outliers in the context of amounts spent in 2007-2009, and even in the context of the amount spent in 2012. (*Id.*) By excluding 2007-2009 data from its averaging calculation, Staff gives weight to only the three years with the lowest expenses. Simply including one more year of 2009 data in a four-year average would increase Staff's baseline prior to escalation more than \$110,000. (*Id.*, p. 7.)

AIC has explained the financial and operational reasons for these "low-water marks. The recent recession, prior rate recovery and the transition to new leadership in the new operating company *temporarily* curtailed discretionary spending and disrupted the pattern of higher contributions that had occurred in 2007-2009. (Ameren Ex. 21 (Rev.), pp. 9-10.) The Commission has recognized the "economic climate" is relevant when judging a reasonable amount of contributions to include in rates. (*Id.*, p. 10.) Although Staff has agreed, "a prior years' economic climate can be a factor" when judging past discretionary spending, Staff's testimony and methodology gives no consideration to the context of AIC's 2010-2012 spending. (Tr. 261.) Staff also gives no credible explanation why spending prior to 2010 should not be given *any* weight. Staff may dismiss 2007-2009 spending as pre-merger contributions. But Staff offers no explanation why the merger was a watershed moment that permanently lowered spending. AIC's service territory has not diminished in size since the merger. And the customers and communities in need of contributions have not decreased in number.

Third, Staff discounts AIC's renewed commitment to increase charitable contribution

expenditures after experiencing historic lows in 2010 and 2011. As part of that effort, AIC increased its contributions by 60% in 2012, in part by providing more energy assistance to low-income residents. (Ameren Ex. 21.0 (Rev.), p. 10.) AIC intends to increase contributions in 2013 in excess of amounts spent in 2010 and 2011. (*Id.*, p. 13.) AIC witness Mr. Thomas B. Kennedy's testimony identifies the categories of non-profit organizations AIC expects to contribute in 2014: Health and Human Services, Arts and Culture, Environment, Youth and Education, and Civic, Community and Economic Development. (*Id.*) Each year, AIC tries to balance contributions across these categories, and fully expects to meet its contribution budget for 2014 by supporting organizations that meet the criteria AIC uses when approving and funding contributions. (*Id.*, pp. 4, 14.) That includes a concerted effort to increase contributions to areas that received fewer contributions in 2012 like the Environment. (*Id.*, pp. 13-14.) AIC acknowledges its forecasted 2014 contributions are higher than actual contributions in 2012. But that is because AIC intends to contribute in excess of amounts spent in 2012. Staff's proposal does not consider this, and in fact, increases the gap between forecasted 2014 contributions and actual 2012 contributions by including the even lower amounts spent in 2010 and 2011 in its average.

Lastly, Staff's proposal fails to consider the amount of contributions authorized in rates for another gas utility in Illinois. (Ameren Ex. 35.0, p. 7.) In its June 2013 order, the Commission approved recovery of \$1.234 million in contribution expense for the Peoples and North Shore gas utilities. (Ameren Ex. 21.0 (Rev.), p. 15.) For those companies' 987,000 customers, that equates to approximately \$1.25 per customer. (*Id.*) That would be approximately *double* the customer charge AIC is requesting for 2014 for its gas delivery rates—\$519,000 divided by 813,000 customers equates to approximately .64 cents per customer. (*Id.*)

Staff claims these facts are irrelevant. A benchmark of reasonableness for a discretionary spending item, however, should be a comparison of the amount of contribution expense per customer approved by the Commission for other utilities. (*Id.*, p. 16.) Section 9-227 allows cost recovery of public welfare and charitable contributions that are “reasonable in amount.” The Commission should interpret and apply that language consistently and not arbitrarily in reviewing each utility’s request. Surely, AIC’s request of half the amount of contribution expense per customer awarded to the Peoples and North Shore utilities is a reasonable, if not a very conservative, amount.

In addition to its averaging methodology, Staff seeks to remove a minor amount for a specific contribution made in 2011 to the Greater Missouri Leadership Foundation to fund an annual leadership conference for female executives who live or work in the greater St. Louis area. (Ameren Ex. 21.0 (Rev.), p. 16.) That this is the only actual contribution Staff seeks to disallow speaks volumes to the criteria AIC uses to select recipients. But even this amount should be recovered. Staff’s only basis for disallowance is that the conference occurred outside of Illinois and concerned Missouri policy issues. That the conference has a location and focus in Missouri, however, does not mean ratepayers in Illinois do not benefit. It is a benefit to have effective leaders at Ameren Illinois. Staff agrees “leadership development programs can provide non-quantifiable benefits to ratepayers.” (*Id.*, p. 17.) The benefits that flow from increased productivity and enhanced leadership skills are not diminished because the leadership training occurs outside of Illinois. (*Id.*) In this case, the personnel who regularly attend this conference are provided leadership training and guidance to women on the educational and societal issues prevalent in the surrounding communities, including the East St. Louis area in AIC’s service territory. (*Id.*, p. 16.) The leadership education, development, training and skills that attendees

acquire at this “enriching experience” can translate and apply to similar situations and issues involving Illinois personnel and customers, despite the event’s location. (Ameren Ex. 35.0, p. 8.)

AG/CUB’s recommendation the Commission limit AIC’s recovery of contributions to the utility’s 2012 actual contributions, adjusted for inflation, suffers from similar flaws. To its credit, AG/CUB does not include 2010 and 2011 spending in its calculation of a re-forecasted amount of contributions for 2014. But like Staff, AG/CUB has not adequately defended the use of an actual or average historical amount of contributions as a baseline for recovery. This is a rate proceeding to recover AIC’s future forecasted costs, not its prior historical costs, adjusted for inflation. Prior historical spending can be used as a point of comparison to judge the reasonableness of future budgeted expense—but only to a point. The appropriateness of the comparison depends on whether the historical amounts are representative of the amounts the utility expects to spend in the future period. In this case, recent contributions do not provide an accurate baseline for calculating a reasonable and representative amount of 2014 contributions.

The contribution expense made in 2010, 2011 and even 2012 must be considered within the context in which the spending was made. Staff and AG/CUB’s proposals ignore that context, and in doing so, they essentially argue the Commission should approve escalated historical amounts in a vacuum. AIC has explained why contribution spending temporarily decreased in those years. AIC has also provided substantial record evidence—such as the contributions AIC made in 2007-2009, the forecasted contributions approved for the Peoples and North Shore utilities, the contributions currently recovered by AIC in rates, the inconsistent treatment of contribution expense by Staff, and AIC’s renewed commitment to increase and align its contributions with the amount already deemed reasonable to include in rates by the Commission—that supports the amount it proposes to include in its revenue requirement. The

Commission should not adopt Staff or AG/CUB's adjustment, and should approve AIC's request as a reasonable amount.

7. Forecasted Advertising Expenses

Staff and AG/CUB propose substantial disallowances in AIC's forecasted advertising expenses. Staff seeks to reduce AIC's forecasted Account 909 and 930.1 expenses by nearly \$800,000. (ICC Staff Ex. 13.02.) AG/CUB's adjustment reduces forecasted Account 909 expense by \$419,000. (AG/CUB Ex. 5.1, p. 6.) As with the proposals to reforecast charitable contributions, Staff's and AG/CUB's proposed adjustments to advertising expense are based on actual spending that does not accurately depict future activities AIC plans to implement in 2014. In its rebuttal testimony, AIC identified incremental gas-only advertising that it intends to execute in 2014. (Ameren Ex. 21.0 (Rev.) (Kennedy Reb.), pp. 27-28.) Staff and AG/CUB, however, have not given that testimony *any* weight. They have not even identified any incremental activities they believe are not prudent or any amounts for those activities they consider unreasonable. AIC has made discrete disallowances for communication consulting fees paid to Strategic International Group (SIG) (see Appendix D, Schedule 2), and tangible benefits received from recipients of sponsorships. The Commission should reject the parties' further adjustments to advertising expense as arbitrary and without basis.

AIC is responsible for providing customers with safe, adequate and reliable gas service. Now more than ever, ratepayers and other members of the public are demanding information concerning the safety, adequacy, reliability and cost of their utility service. (Tr. 127.) The advertising expense charge allows AIC to inform and educate customers on reliability measures, such as pipeline replacement and pipeline maintenance and inspections. But it also includes engagement with the public on safety measures. AIC's engagement efforts include reaching out to consumers, local government officials, contractors and emergency workers to discuss safe

practices around pipelines, proper excavation techniques, procedures for responding to pipeline leaks and gas explosions, and other pipeline safety issues. These communications may occur in-person or through the production and publication of gas advertisements, radio and television scripts, websites, press releases, brochures, booklets and other print and digital materials.

Quarterly messages are distributed through mass media (radio and television), direct customer outreach, and print/social media. (Ameren Ex. 21.0 (Rev.), p. 26.) Specific safety messages are placed in appropriate print media twice a year, and required notices are sent to property owners along AIC owned pipeline. (*Id.*) Various channels are utilized to inform customers and other stakeholders about what to do when gas service is interrupted, how to respond during a weather event or emergency situation, how to manage energy usage, and how to conserve energy. (*Id.*) Various communication messages and materials are developed, designed, produced and published to promote safe digging, to provide options for managing energy usage and costs, and to describe new investments to modernize and update AIC's natural gas infrastructure. (*Id.*)

The baseline for Staff's adjustment to AIC's projected advertising expenses, like Staff's adjustment to charitable contributions, is an average historical expense. In this instance, Staff's proposed normalized advertising expense is based on an average of 2009-2012 actual expenses. (Ameren Ex. 35.0 (Kennedy Sur.), p. 14.) From that average expense, Staff makes an adjustment for 2012 gas-allocated sponsorship expenses (\$74,000) (discussed below) and an adjustment for gas-allocated consulting fees paid to SIG (\$73,000) (agreed to by AIC). As with charitable contribution expense, Staff has failed to demonstrate why it is appropriate to determine projected expenses in a future test year simply by application of an inflation factor to a historical average. Staff's position appears to be that *no* incremental advertising spending planned for the test year can be justified as prudent and reasonable, if the forecasted amount exceeds historical spending.

Other information however, such as planned 2014 gas advertising initiatives, must be considered.

The testimony of AIC witness Mr. Thomas B. Kennedy, who oversees AIC's external communications, identifies a need for AIC to intensify efforts to educate customers, first responders, contractors and other officials about the importance of working safely around natural gas pipelines. (Ameren Ex. 35.0, p. 16.) Instances of contractor dig-ins continue to occur, putting the workers and the public at risk. (*Id.*) The Commission has recognized underground utility infrastructure and utility service is jeopardized by damage caused by those who fail to locate underground lines prior to digging. *See, e.g., Ill. Commerce Comm'n on its Own Motion*, Docket 10-0223, Resolution (March 24, 2010). Warnings, citations and penalties for instances of improper digging continue to increase, according to the Commission's own statistics. (AIC Cross Ex. 1.) In 2010, 103 warnings and 55 citations were issued, resulting in \$46,000 in penalties for not having a valid locate request or for not digging carefully around marked underground utility lines. (*Id.*, p. 1.) In 2011, 121 warnings and 54 citations were issued, resulting in \$55,606 in penalties. (*Id.*, p. 2.) In 2012, 123 warnings and 88 citations were issued, resulting in almost \$92,000 in penalties. (*Id.*, p. 3.) A recent survey of homeowners planning digging work found nearly half did not intend to call their local one-call notification center, and two thirds did not believe they would hit an underground line, even though records show an underground line is damaged every three minutes nationwide. (*Id.*, p. 2.) Since AIC's natural gas distribution system is largely unseen, AIC has an obligation to tell customers and other members of the public about their shared responsibilities to ensure the system is not compromised. (Ameren Ex. 35.0, p. 16.)

Staff agrees inadvertent digging into pipelines by excavators, contractors and homeowners can compromise gas delivery service. (Tr. 218.) Staff agrees it is important to

educate consumers, contractors and excavators about the location of pipelines and the importance of using safe practices when digging. (*Id.*) Staff agrees it is important to educate first responders and municipal leaders about how to react to emergencies such as leaks and ruptures in gas pipelines. (*Id.*) Staff agrees that its own data shows “there are still accidents that occur” due to improper digging practices. (Tr. 225:6-7.) And Staff agrees with the Commission’s own publicly stated goals that, through education about safe digging practices, excavators and homeowners can save time and money and keep our nation safe and connected by making a call to 811 in advance of any digging project; waiting the required time for utility lines to be marked; respecting marked lines by maintaining visual definition through the course of the excavation; and digging with care around marked utility lines. (Tr. 219-220.)

To effectively reach and inform the public on these important issues, AIC has identified incremental and necessary gas-only advertising spending for 2014. (Tr. 127-128.) Incremental expenses will be spent on communications about gas safety, customer services and energy efficiency. (Ameren Ex. 21.0 (Rev.), p. 26.) Outreach will occur to schools, local government officials, emergency workers and contractors to deliver educational programs on safe digging and gas safety. (*Id.*) There are plans to revise literature for municipalities on gas safety, educate local leaders face-to-face, and increase communications to customers through mobile messaging and other social media. (*Id.*) Installing a mailbox, building a deck and planting a tree or garden are just a few examples of digging projects that should only begin a few days after utility lines are marked after a call to 811. (AIC Cross Ex. 1, p. 2.) The rebuttal testimony of Mr. Kennedy, (Ameren Ex. 21.0 (Rev.), pp. 27-28), identified the following incremental spending for 2014:

- Contractor communications: To reduce dig-ins and improve service, AIC will increase communications to contractors and provide improved instruction on how to prevent dig-ins. A priority area for increased contractor communications will be Division IV. Estimated costs for this incremental

activity are \$100,000.

- First Responder Training: AIC will increase educational outreach to first responders across the service territory to improve safety practices in emergency gas situations. Estimated costs for this incremental activity are \$75,000.
- Call Before You Dig: A new public education program through various media will be executed to instruct customers about the need to “call before digging” to prevent gas line compromises. Estimated costs for this incremental activity are \$335,000 (\$85,000 for production and \$250,000 for publication).
- Pipeline Awareness Mailer: AIC will develop, design, and mail a communication to educate customers about the locations of pipelines and safe practices around them. Estimated costs for this incremental activity are \$100,000.
- Pipeline Awareness Communication for Municipal Leaders: AIC will execute a program to educate municipal officials on the locations of pipelines and how government employees can operate safely around the infrastructure. Estimated costs for in-person presentations and development of materials are \$73,000.
- Pipeline Awareness Communication for School Leaders: AIC will execute a program to inform educators about gas pipeline safety. The goal is to reach and influence school leaders, parents and students. Estimated costs are \$50,000.
- Gas Pipeline Safety Training for Excavators: AIC will execute a program to educate construction excavation companies about location of pipelines and best practices for operating safely around infrastructure. Estimated costs are \$73,000.

AIC anticipates it will incur higher gas-allocated advertising expenses in 2014 than in any year from 2009-2012 because of the increased spending identified for these activities.

(Ameren Ex. 21.0 (Rev.), p. 25.) Using average expense from 2009-2012 as the baseline for 2014 spending, even after adjusting for inflation, understates and removes necessary, planned expenditures.

AG/CUB’s proposal to reduce AIC’s forecasted advertising expenses suffers from the same fatal flaw as Staff’s proposal—no weight is given to AIC’s stated planned incremental

activities. Indeed, AG/CUB's own expert claims AIC has not provided any itemization of gas-only advertising that AIC plans to execute in 2014. (Ameren Ex. 35.0, p. 21.) As shown by the bulleted list in Mr. Kennedy's rebuttal, that simply isn't true. Moreover, AG/CUB witness Mr. Brosch's approach improperly uses 2011 advertising amounts charged to AIC's *electric* operations and disallowed in Docket No. 12-0293 as the basis for an adjustment to AIC's *gas* advertising. (*Id.*) A large majority of the "potentially comparable" 2012 charges—fees for Simantel's outside services—were charged 100% to AIC's electric operations. (*Id.*) Mr. Brosch's use of a disallowance percentage based on the Commission's order in Docket 12-0293 overstates his proposed adjustment to forecasted Account 909 gas expenses. (*Id.*) The proper approach would have been for Mr. Brosch to rely on the 2012 gas-allocated SIG fees (which AIC has removed) and minor gas-allocated amounts for credit card expenses. (*Id.*, p. 22.)

Staff points out AIC did not spend its advertising budget in 2012. That actual 2012 advertising expense turned out to be lower than budgeted 2012 expense is irrelevant to AIC's budgeted spend in 2014. AIC made a prudent decision not to spend advertising dollars during the 2012 presidential campaigns, when available advertising minutes were fewer and more expensive. (Ameren Ex. 35.0, p. 15.) The gap between actual and budgeted spending in 2012 includes cancelled media buys scheduled for the 4th quarter and other planned expenditures that were deferred as AIC selected a new agency of record. (Ameren Ex. 21.0 (Rev.), p. 25.) There is no basis in the record to conclude AIC will take similar actions in 2014 to curtail its actual spending. Indeed, the opposite is true. Gas-allocated advertising spending in Account 909 was already \$149,000 higher over the first six months of 2013 than the first six months of 2012. (*Id.*, p. 26.) The record also shows AIC has identified specific, incremental gas-only advertising AIC intends to implement in 2014. (*Id.*, pp. 27-28.) These incremental expenses were not included in

budgeted spending for 2012. (Ameren Ex. 35.0, p. 16.) Staff's testimony does not take issue with the prudence of the described activities or the reasonableness of the stated amounts. (*Id.*, p. 15.) And there is no evidence in the record to support the conclusion that 2014 incremental spending would not be prudently incurred or would be unreasonable in amount. (*Id.*) The Commission should reject Staff and AG/CUB's further adjustments to AIC's advertising expenses.

8. Sponsorship Expense

The testimony and exhibits submitted by AIC witness Mr. Thomas B. Kennedy report the analysis AIC conducted to determine the portion of 2012 sponsorship expense to recover in the gas delivery rates set in this proceeding. Ameren Exhibit 35.1 identifies, among other things, the recipient and amount of the sponsorship, the worthy event, activity or cause sponsored, the print advertisements (if any) distributed and published at or in connection with the event, and the tangible benefits (if any) received by AIC employees in attendance. The analysis shows the educational, charitable and public welfare benefits that flow from AIC's financial support of local communities and organizations in its service territory. And the analysis calculates and self-disallows the portion of the sponsorship expense (\$25,519) that reflects the fair market value of meals, tickets and entertainment received by AIC. Whether the sponsorship provided AIC with cost-effective opportunities to reach consumers with safety and energy efficiency messaging, or simply permitted AIC to contribute to a meaningful endeavor, these amounts should be recoverable in rates, especially now that the tangible benefits received by AIC employees have been identified and removed. Staff and AG/CUB seek to remove a higher amount of sponsorship expense, roughly \$74,000 and \$103,000⁴ respectively. (ICC Staff Ex. 13.0, Schedule 13.02;

⁴ Unlike Staff, AG/CUB witness Mr. Brosch does not attempt to account for the amounts AIC

AG/CUB Ex. 5.1, p. 5.) As explained below, their adjustments fail to give any weight to AIC's analysis or the Commission's most recent, relevant decision. The Commission should adopt AIC's self-adjustment of sponsorship expense and reject Staff's and AG/CUB's additional adjustments.

In Docket 12-0293, AIC's last formula rate case, the Commission allowed recovery of 2011 sponsorships that "involved useful information from AIC." *Ameren Ill. Co.*, Docket 12-0293, Order, p. 74 (Dec. 5, 2012). For other sponsorships, amounts were disallowed (\$30,834) largely because AIC employees received "benefits" from meals or tickets. *Id.*, p. 76. The largest disallowance, however, was for "catch all" amounts (\$70,225) the Commission did not consider supported by AIC's exhibits. *Id.* Despite those disallowances, the Commission recognized "charitable contributions and corporate sponsorships share some characteristics." *Id.*, p. 74. The Commission's stated intent was not to disallow a charitable contribution just because it was recorded to an advertising account. *Id.*

Subsequent to its order in Docket 12-0293, the Commission issued its rate order in Docket 12-0511/0512 (cons.) – a 2013 future test year case filed by the Peoples and North Shore utilities. (Ameren Ex. 29.0 (Rev.) (Kennedy Reb.), p. 11.) In that proceeding, Staff sought to disallow certain sponsorships the utilities argued benefited customers. *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, pp. 161-64 (June 18, 2013) (hereinafter People's/NS). The sponsorships in question included funding for child and family services organizations, public libraries, foundations and festivals. *Id.*, p. 164. The Commission rejected Staff's adjustment, concluding, "the nature of these sponsorships is charitable and recoverable under

has already agreed to remove from the revenue requirement. Acceptance of Mr. Brosch's full adjustment would necessarily double-count and remove twice those self-disallowed amounts.

Section 9-227.” *Id.* In doing so, the Commission found “the nature of the expense is more important” than the account where the expense is recorded. *Id.* The Commission further noted the recipients were “charitable organizations or organizations providing public welfare or educational services” in the utilities’ service territory. *Id.* The Commission also rejected Staff’s adjustment to remove the sponsorship expense of certain institutional events, including table sponsorships, concluding the sponsorships were “made to support fundraising events for local charities and communities in the Utilities’ service territory and not primarily to promote the Utilities or to foster goodwill towards the Utilities.” *Id.*, at 169. The Commission found the expenses were “not barred by Section 9-225 of the Act and are recoverable under Section 9-225 and 9-227.” *Id.*

As the Commission found in the Peoples/NS Docket and acknowledged in Docket 12-0293, the overriding consideration, when weighing the recoverability of a sponsorship, should be whether the funds provided to the recipient organization resulted in benefits to ratepayers in AIC’s service territory. The benefit could be educational in nature, based on AIC’s presence at the sponsored event and the print or media advertising materials distributed or published at or in connection with the event. Or the benefit could be charitable or public welfare in nature, if the purpose of the sponsorship was to provide financial support for the recipient’s event, activity or mission. In other words, that AIC did not distribute or publish advertisements at or in connection with a sponsored event in and of itself is not a basis for disallowance, if the event otherwise benefits customers in the utility’s service territory. Granted, sponsorships can serve as a cost-effective vehicle for providing educational information to consumers, often in-person. But putting aside that aspect of a sponsorship, the Commission’s recent orders confirm that financial support for local organizations, whether accounted for as a contribution or sponsorship, is still

recoverable in rates, if the utility funding has a “charitable” or “public welfare” purpose.

In preparing its direct filing for Docket 13-0301, AIC’s current formula rate case, AIC analyzed its 2012 sponsorship expenses, considering the Commission’s guidance in Docket 12-0293. (Ameren Ex. 29.0 (Rev.), p. 5.) Two main actions were taken. First, AIC revisited internal guidance on community and public relations expenses in general and issued new guidelines on sponsorships. (*Id.*, p. 6; Ameren Ex. 21.9.) Second, AIC reviewed 2012 sponsored events to identify whether all, some, or none of the sponsorship expense for an event, activity or cause should be included in AIC’s updated formula rate revenue requirement. (Ameren Ex. 29.0 (Rev.), p. 6.) The point of the exercise AIC undertook was three-fold: (i) identify sponsorships that provided an opportunity to AIC to leverage print or media advertising to educate and inform consumers; (ii) identify sponsorships that were principally financial contributions in support of the recipient’s event, activity or mission; and (iii) identify and remove tangible benefits AIC employees in attendance received from the recipient. (*Id.*, pp. 6-7.)

The result of AIC’s review was a self-disallowance, in both pending rate proceedings, of the fair market value of tangible benefits (e.g., tickets, meals and entertainment) received by AIC employees in 2012 from sponsorship recipients. (*Id.*, pp. 2, 5.) This sponsorship information was supplemented and refined in response to Staff data request BAP 23.01, in response to additional Staff inquiries on advertising messages, ratepayer benefits, rationale for recovery, and relation to delivery service for each sponsorship Staff proposed to disallow. (Ameren Ex. 35.0 (Kennedy Sur.), pp. 13-14.) The results of this second review, which included several additional minor self-disallowances, were presented in Ameren Exhibit 35.1. In total, AIC has removed \$25,519 in sponsorship expense from its proposed gas revenue requirement. (Ameren Ex. 35.1.)

In its direct testimony, Staff accepted AIC’s self-disallowed amount of sponsorship

expense. (ICC Staff Ex. 4.0R, p. 7.) In supplemental direct testimony however, Staff provided an “updated amount” for its sponsorship adjustment, increasing its adjustment purportedly “using information provided by the Company in Docket 13-0301, Exhibit 6.2 (Rev.).” (ICC Staff Ex. 9.0, p. 5.) On rebuttal, Staff slightly revised its new adjustment to reflect an amount of “tangible benefits” AIC removed from the revenue requirement. (ICC Staff Ex. 13.0, Schedule 13.02.) Even with Staff’s revision on rebuttal however, Staff’s adjustment to remove additional sponsorship expense remains unsound.

First, contrary to Staff’s assertion, the same exact sponsorship information was provided by AIC in both pending rate proceedings. (Ameren Ex. 35.0, p. 12.) Staff data request BAP 6.02 asked AIC to identify 2012 expenses “comparable” to the types disallowed in Docket 12-0293. (*Id.*) In responding as to the sponsorships disallowed in Docket 12-0293, AIC indicated it was providing its analysis of 2012 sponsorships, as BAP 6.02 (Attach 2), presented in the direct case in Docket 13-0301. (*Id.*) That analysis contained the 2012 electric and gas allocated portions of the value of the tangible benefits AIC had identified. The gas-allocated amount became the basis for Staff’s initial sponsorship adjustment. (ICC Staff Ex. 4.0R, Schedule 4.02.) That amount was also the basis for the amount AIC agreed to remove on rebuttal from its proposed gas revenue requirement. (Ameren Ex. 35.0, p. 13.) Thus, between the filing of Staff’s direct and supplemental direct, no additional information was provided to Staff, in either pending proceeding, on 2012 sponsorships that would have provided a basis for a new adjustment.

Second, Staff’s testimony, schedules and appendices provide little to no explanation of the basis for Staff’s proposal to disallow additional sponsorship expense. In Staff’s supplemental direct testimony, when a new adjustment was first proposed, Staff’s testimony contained one sentence that identified an “updated amount.” (ICC Staff Ex. 9.0, p. 5.) No further information

was provided in Schedule 9.02 other than to identify the individual, additional amounts that Staff proposed to disallow. Staff's rebuttal testimony—all of 14 lines—finally did identify Staff's standards, namely that Staff believes the amounts proposed for disallowance “are unnecessary for the provision of utility service” and/or “do not provide benefits to ratepayers.” (ICC Staff Ex. 13.0, p. 16:185-98.) There is no explanation, however, provided for the basis or source of Staff's standards. (Ameren Ex. 35.0, p. 9.) Nor is there any explanation how those standards should be applied or were applied to disallow the specific sponsorships in this case. (*Id.*) The data responses Staff provides in Attachment A to Staff rebuttal (AIC-Staff 13.02, 13.04 and 13.05) simply restate Staff's standards without further explanation. (*Id.*) The AIC-Staff Series 13 Attachment also does nothing more than identify the sponsorships Staff believes should be disallowed. (*Id.*, p. 10.) Absent from Staff's analysis is any indication how Staff did—or anyone can—objectively apply Staff's standards. This makes it impossible to decipher the basis and reasons relied upon by Staff to support each component of Staff's larger adjustment to sponsorship expense. Simply bluntly stating an expense is not “necessary” or does not provide “benefits” is insufficient.

Third, Staff's application of its standards, on its face, is inconsistent. For the most part, Staff appears to agree AIC can recover sponsorship expense for events where AIC provided an example of a print advertisement that was displayed or distributed at the event. For several events however, including the sponsorship of the Illinois High School Association March Madness banquet and tournament and the sponsorship of the Peoria Rivermen Hockey “Goals for Kids,” Staff disallows the entire amount of the sponsorship, despite the fact that AIC identified a print advertisement. (Ameren Exs. 29.0 (Rev.), p. 14; 35.0, p. 10; 35.1:69, 133.) Other examples of sponsorships on Ameren Exhibit 35.1, for which Staff is disallowing the full

amount of funding, even though a print advertisement was identified, include the Tate and Lyle Players Championship for the Decatur Futures Charity (line 33); Edwardsville Chamber and Rotary fundraisers (lines 42-44); the Broadway Theater Series and other funding for the Peoria Civic Center (lines 126-129); Quincy Gems (line 137); and U.S. Cellular Coliseum (line 162). Funding for these organizations provide AIC with opportunities to reach customers through signage or booklets. For the Illinois High School Association, for example, AIC posted signage and distributed a booklet concerning the Act-On-Energy program on energy efficiency awareness. (Ameren Ex. 35.1:69.) The funding for these organizations, however, also provides the recipients with the financial resources necessary to actually hold the events. (Ameren Ex. 29.0 (Rev.), pp. 16-18.) Staff's testimony provides no explanation why the educational and public welfare benefits that flow from these sponsorships cannot be recovered (once the tangible benefits received by AIC employees have been identified and removed).

Fourth, Staff's application of its standards, on its face, seemingly ignores much of the information AIC provided in Ameren Exhibits 21.8 and 35.1, other than the print advertisements associated with certain sponsorships. Indeed, there is no discussion in Staff's testimony or schedules of the weight Staff provided any of the information in AIC's exhibits. There is no indication Staff considered whether there was informational messaging associated with the event, where there was not a traditional print advertisement. For example, Staff seeks to disallow the full amount of the gas-allocated portion of the sponsorship of the Decatur Celebration Outdoor Festival (Ameren Ex. 35.1:32), even though there was a safety informational banner associated with the event. Similarly, there is no indication Staff considered whether there was a booth presence associated with the event, where there was not a traditional print advertisement. For example, Staff seeks to disallow the full amount of the gas-allocated portion of the sponsorship

of the Illinois Institute of Technology Great Lakes Symposium (*Id.* at line 71), even though AIC had a booth at the event and distributed brochures. The absence of analysis in the record again supports the conclusion that Staff's adjustment is arbitrary and capricious.

Fifth, Staff's application of its standards, on its face, does not give any consideration to the recoverability of sponsorship expense where AIC did not engage in traditional advertising at or in connection with an event or activity. As explained in the testimony of AIC witness Mr. Thomas B. Kennedy, who oversees AIC's sponsorship of local community organizations and events, many of the sponsorships listed in Ameren Exhibit 35.1 simply constituted financial support to local community organizations to support an event, activity or cause that did not include traditional advertising opportunities. (Ameren Exhibit 29.0 (Rev.), pp. 10-11.) The funding of these sponsored "public" events resembles closely the funding given to non-profit organizations to support public welfare and charitable causes under Section 9-227 of the Act. Although this type of sponsorships does not permit AIC to hang signage or distribute printed materials, AIC still considers the sponsored event, activity or cause itself to be important, both to the local community and to any AIC co-workers who volunteer or participate. (*Id.*, pp. 8-9.)

There are many, more direct, channels AIC could pursue, with broader reach, if the primary goal of these contributions was to enhance the image of the utility. (*Id.*, p. 16.) Sponsorship of these local community initiatives, however, fits AIC's mission to enhance the quality of life in local communities. (*Id.*) Whether you consider the funding of the Belleville Township High School hockey team's 5K run (Ameren Ex. 35.1:6), or Elmwood's narcotics canine program (*Id.*, l. 24), or Hillsboro's sports complex lighting (*Id.*, at line 26), or Decatur's Park Singers and First Tee programs (*Id.*, at line 28)—all of these sponsorships and many others listed on Ameren Exhibit 35.1 that Staff has proposed to disallow should be recoverable under

Section 227 of the Act, since AIC provides these funds to local municipalities and other local non-profit organizations for a “charitable” or “public welfare” purpose. (Ameren Ex. 29.0 (Rev.), pp. 9, 16-18.)

Staff, however, disregards the Commission’s recent findings and analysis in the Peoples and North Shore utilities 2013 future test year rate case, in which the Commission found that sponsorships given to “charitable organizations or organizations providing public welfare or educational services” and “fundraising events for local charities and communities” were recoverable expenses. *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, pp. 164, 169 (June 18, 2013). It is not appropriate for Staff to claim its disallowances are based on its analysis of criteria in one Commission opinion (Docket 12-0293), but then disregard criteria in another, more recent decision that undercuts the validity of Staff’s adjustment (Docket 12-0511/0512 (cons.)). (Ameren Ex. 35.0, p. 11; Tr. 239-244.) Ameren Exhibit 35.1 lists all of the sponsorship funds that AIC provided with a “public welfare” or “charitable” purpose to municipalities and other non-profit organizations in its service territory. That the event’s expense was recorded in Account 930.1 in 2012 and appears on Ameren Exhibits 21.8 and 35.1, rather than in AIC’s Charitable Contribution C-7 Schedule, should not matter for determining whether the expense was prudently incurred, reasonable in amount, of benefit to ratepayers, and recoverable in rates.

AG/CUB’s proposed adjustment to test year sponsorship expense is no more proper than Staff’s adjustment. Mr. Brosch proposes a reduction in forecasted sponsorship expense by applying his “ICC Percentage Recoverable Factor – 2011 Costs Allowed.” (Ameren Exs. 21.0 (Rev.), pp. 35-38; 35.0, p. 20.) Relying solely on an analysis of disallowed 2011 electric sponsorship expense to derive a reasonable amount of 2014 sponsorship expense for recovery in

gas delivery rates, however, is inappropriate. (*Id.*) Mr. Brosch ignores (i) the most recent data available (the 2012 sponsorship expenses); (ii) the analysis AIC has conducted to remove the value of tangible benefits received from that 2012 data; (iii) the Commission's order in Docket 12-0511/0512 (cons.) approving the recovery of sponsorships that were charitable and public welfare in nature; and (iv) the fact that a majority of the expense disallowed from Account 930.1 in Docket 12-0293 was related to the Commission's determination there was a lack of documentary support. (*Id.*) That the Commission has not yet decided the recoverability of 2012 sponsorship expense is not a credible concern. Both Staff witnesses and Mr. Brosch himself rely on 2012 data to justify adjustments to AIC's gas revenue requirement in this case, including an adjustment proposed by Staff and Mr. Brosch to forecasted charitable contribution expense.

AIC has agreed to remove the gas-allocated portion of the tangible benefits AIC employees received in 2012 from sponsorship recipients—Staff's original proposal in direct. The remainder of the 2012 gas-allocated sponsorship expenses should be recovered in gas delivery rates. As shown by the testimony and exhibits of Mr. Kennedy, the sponsorship provided AIC with a cost-effective opportunity to reach consumers with educational messages, or otherwise provided financial support, for a charitable or public welfare purpose, to local communities and organizations. Staff and AG/CUB fail to support their larger disallowance with convincing, specific reasons why additional amounts of sponsorship expense are not recoverable in rates. The sponsorship expenses (less tangible benefits received) are reasonable in amount, prudently incurred, and of value to ratepayers. The Commission should approve AIC's self-disallowance and reject the larger adjustments proposed by Staff and AG/CUB.

9. Credit Card Expenses

Staff has proposed an adjustment to disallow approximately \$12,000 of employee credit card charges from the revenue requirement. (ICC Staff Ex. 9.0, Sch. 9.01.) This disallowance is

improper because AIC has demonstrated that each of these charges is just and reasonably related to the provision of delivery services in compliance with the Act and prior Commission orders. In AIC's prior electric rate proceeding, the Commission found that utility employees' corporate credit card charges should not be excessive and should be reasonably related to the provisioning of delivery services. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 67 (Dec. 5, 2012). The Commission allowed some charges "conceivably related" to delivery service, while disallowing other charges absent better support. *Id.* In this proceeding, AIC has provided this better support by establishing the business-related justification for each of the disputed credit card charges.

As AIC witness Ms. Jacqueline Voiles explained in her supplemental rebuttal and her surrebuttal testimony, each disputed corporate credit card expense is reasonable in amount, has been prudently incurred and serves a legitimate utility purpose. (Ameren Exs. 28.0 (Rev.) (Voiles Supp. Reb.), p. 10-13; 41.0 (Voiles Sur.), p. 12.) As the evidence shows, the disputed charges were for a variety of work-related purchases. There are charges that assist AIC with storm response and preparedness. There are charges for routine utility equipment. There are charges that promote safe practices. There are charges for business-related meals and travel. And there are charges that support employee recruitment, retention and morale. Ameren Exhibit 28.1 provides the business justification for each disputed expense. (Tr. 69-76.) Staff has not challenged—and admits it cannot challenge—any of the business justifications provided. (Tr. 231-32, 236-37.)

Furthermore, each of the disputed business charges provides a benefit to ratepayers and is related to the provision of delivery services. The Storm Response and Preparedness charges benefit customers by ensuring AIC employees meet customer expectations in the event of storm outages. (Ameren Ex. 28.0 (Rev.), p. 10.) Other Utility Equipment charges enable employees to

efficiently serve customers in an ever increasingly high-tech digital world. (*Id.*) Food and Beverage charges incurred in the context of Safety meetings relate to education and training intended to reduce employee injuries and property damage claims, and therefore lower ratepayer costs. (*Id.*, p. 11.) Employee appreciation charges increase retention rates and morale leading to a more knowledgeable, dedicated workforce. (*Id.*, p. 12.) That employees may have received a *de minimus*, fringe benefit from certain of the disputed expenses does not negate the benefits realized by ratepayers or change the fact that the charges were incurred in connection with the employee's employment with AIC. AIC has met its burden that each credit card expense was a reasonable, prudently incurred business expense, reasonably related to delivery service.

While Staff has failed to address the adequacy or inadequacy of any of AIC's business justifications or the resulting ratepayer benefits, they have instead focused on whether these disputed charges are of the "type" or "similar" to those disallowed in Docket 12-0293. (ICC Staff Exs. 9.0, pp. 3-4; 13.0, p. 15.) Since certain charges for flowers were disallowed in Docket 12-0293, Staff concludes flower charges should be disallowed in this proceeding. The problem with Staff's approach is that it fails to consider the evidence provided *in this proceeding*, namely the business-related justifications and the ratepayer benefits for each disallowed charge. In Docket 12-0293, each charge was disallowed not because it was of a certain "type," but because the Commission did not consider it a recoverable expense based on the record. For example, flower purchases were disallowed because decorating an informational booth was not in the Commission's opinion a recoverable expense based on the evidence presented, not because flowers may never be an appropriate expense and should be categorically excluded from rates. The context of the purchase must be considered to determine whether the purchase is reasonable in amount, prudently incurred and related to delivery service. Staff's analysis fails to do this.

Pressed for an individualized reason for the disallowance of each expense, Staff has created five standards for disallowing expenses. Without explaining the application of its criteria and the judgment used, Staff's schedule lists each expense and checks off one or more of five standards for disallowance. (ICC Staff Ex. 9.0, Sch. 9.01.) Staff claims two are "based on Docket 12-0293" - "Arguably Excessive" and "Unnecessary for Delivery Service." The other three fall under the title of Staff's "Threefold Rationale": "Unnecessary for Provision of Utility Service," "Does Not Provide Benefits to Ratepayers" and "Benefit AIC Employees as a Perquisite," without any citation to prior Commission orders or statutory provisions. (*Id.*)

As for the first rationale "Arguably Excessive," which has been checked off for almost all of the disallowed expenses, Staff did not explain *why* they believed AIC paid an excessive amount for any of the challenged charges. The only insight into Staff's analysis came in a discovery request response where Staff reasoned that because the expenses were not necessary, any amount over zero is "excessive." (Ameren Ex. 41.0, p. 14 (citing Staff response to DR AIC-Staff 12.03).) Where one of Staff's standards begins and another standard ends is uncertain. If excessive essentially means unnecessary, it seems unnecessary to have additional standards for "Unnecessary for Delivery Service" and "Unnecessary for Provision of Utility Service." A more reasonable interpretation of "arguably excessive" would be that the disallowed charges could have been obtained at a lower cost. In this proceeding however, there is no evidence any of the expenses are excessive in amount and no party has challenged whether AIC paid too much for any of the charges "reasonably related" to the provision of delivery service.

As for Staff's "necessary" rationales, these standards misinform the Commission as to the required determination the Commission must make concerning the recoverability of these expenses. The Commission must determine whether a charge is "reasonably related to the

provision of delivery services,” not whether a charge was “necessary” for delivery service. Staff does not cite any Commission orders or statutory provisions that require AIC to demonstrate in hindsight that each credit charge was “necessary.” Nor is such an exercise workable. It would be tantamount to second-guessing countless business decisions about whether a particular cell phone, a specific television, a certain safety award or a business meal was a “necessary” utility expense to maintain safe, adequate and reliable gas service. While AIC may be able to provide some level of service in the short term without a particular expense, it would not remain, over the long term, the level of service its customers expect. And it would hamstring supervisors and employees into speculating whether each and every expense would be judged strictly necessary.

More importantly however, Staff has not provided an explanation why each expense is not “necessary,” even if that were the appropriate, after-the-fact standard to apply. There is no indication in Staff’s testimony or schedules why the storm response and other utility equipment charges Staff seeks to disallow are not required to maintain service. There is no indication why the food and beverages provided at safety meetings and other business-related meals are not a necessary expenditure for the day-to-day operation of the utility. There is no indication why safety awards, purchases to recognize an employee’s performance or length of service, or other items that show AIC’s appreciation for its employees are not necessary to engage its workforce.

As for the final two prongs of Staff’s Threefold Rationale, as stated above, AIC has provided testimony establishing the ratepayer benefit associated with each of the charges. Staff has not disputed those ratepayer benefits exist, but rather in response to discovery requests, has suggested that AIC must demonstrate “a quantifiable ratepayer benefit” or a “measure of impact.” (Ameren Ex. 41.0, p. 18.) The basis for this requirement and how it should be applied is not explained in Staff’s exhibits. Given the nature of the ratepayer benefits, quantifying or assigning

a dollar amount impact would not be practicable (even if it were required). That does not negate the fact that ratepayers are benefitting. Again, there is no analysis of *why* AIC's explanation of ratepayer benefit is unpersuasive, only Staff's subjective, unsupported conclusions.

The substantial weight of the evidence submitted in the record in this proceeding demonstrates that each of the disputed corporate credit card expenses is reasonable in amount and reasonably related to the provision of delivery services. The asserted business justifications AIC provided for the charges and the ratepayer benefits AIC believes are realized from the expenses remain unchallenged. Staff's adjustment is speculative and without adequate support. The Commission should find the disputed charges are recoverable in gas delivery rates.

10. Non-Residential Revenues Adjustment

AIC proposes a reasonable test year level of non-residential, present rate revenues of \$91.5 million. An analysis conducted by Ameren Illinois of non-residential base-rate revenues for the twelve months ended (TME) June 2013, shows that the future test year revenues vary from the recent actuals by only 0.8%. This difference, although slight, can be explained by customer switching activities, the effects of weather and regional economic conditions. (Ameren Ex. 38.0 (Rev.) (Althoff Reb.), pp. 3, 6-7.)

AG/CUB witness Mr. Effron recommends an adjustment to forecasted Industrial and Transportation revenues based upon observation that these forecasted revenues vary somewhat from those generated by these financial classifications in a recent actual period (the twelve months ended April 2013). (*See* AG/CUB Ex. 2.0, pp. 11-15.) In his rebuttal testimony, Mr. Effron updated his analysis to more properly focus on base rate, as compared to non-base rate, revenues (the practical effect of which is a better "apples-to-apples" comparison of actual period revenues to the forecasted revenues presented in the Company's Schedule E-5) and shifted the focus of his historical period comparison forward to the TME ended June 2013. (*See* AG/CUB

Ex. 6.1.) Based upon this analysis, Mr. Effron recommends a *reduction* to test-year Industrial revenues in the amount of \$358,000 and an *increase* in test-year Transportation revenues in the amount of \$4,450,000, for a net imputation of \$4,092,000. (See AG/CUB Ex. 6.1.) Both Staff and the Company recommend his adjustment be rejected.

By way of background, the Company maintains four non-residential financial reporting categories: (1) Commercial, (2) Industrial, (3) Public Authority, and (4) Transport. As described by Ameren Illinois witness Ms. Althoff, in presenting his analysis, "Mr. Effron 'cherry picks' the Industrial and Transportation categories and ignores the effects of other revenue categories including Commercial and Public Authority." (Ameren Ex. 38.0 (Rev.), p. 3:59-61.) "As a result, his analysis ignores a broader and more encompassing approach based on a comparison of all actual versus forecasted base rate non-residential revenues at present rates." (Ameren Ex. 38.0 (Rev.), p. 3:61-63.) This "broad[er] analysis is required because factors such as customer switching between transport and system gas, among others, may cause variations between categories (e.g. Transportation, Commercial and Industrial), while the overall level of revenues remains essentially unchanged." (Ameren Ex. 38.0 (Rev.), p. 3:63-66.)

For example, Ms. Althoff explains that a Commercial customer's election to switch to transport service from system gas (and vice versa) can have an impact on the revenues in *both* the Commercial and Transportation financial reporting categories. (See Ameren Ex. 38.0, p. 6.) This is significant because Mr. Effron's analysis only expressly captures the effect of switching on Transportation revenues, but not the Commercial revenues. Thus, in the context of his analysis, it might look like one financial category is "losing" revenues, when in reality (and as apparent by looking at the bigger picture) those revenues may shift another financial reporting classification. (See *id.*, pp. 6-7.) Only by examining all of these classes in the aggregate can you

obtain a full picture non-residential base rate revenue movement. (*Id.*, p. 7.)

In her surrebuttal testimony, Ms. Althoff presents a comparison of ALL of the non-residential financial reporting categories for the TME June 2013 to the forecasted test year. This analysis is based on *the exact same data* as used by Mr. Effron (and provided by the Company during discovery), but includes an analysis of all four financial reporting categories:

Thousands of Dollars	Commercial	Industrial	Public Authority	Transport	Total
Base Rate Revenues 12 Months ended 6/30/13 ⁵	\$58,825	\$2,215	\$1,342	\$28,441	\$90,823
Test Year Base Rate Revenues Forecasted by ⁶ AIC	\$63,369	\$2,574	\$1,592	\$23,991	\$91,526
Adjustment to Test Year Revenues	\$ (4,544)	\$ (358)	\$ (250)	\$ (4,450)	\$ (703)

(*Id.*, p. 4:68-86.) This analysis demonstrates that actual, non-residential base rate revenues totaling \$90.8 million for the twelve months ended June 30, 2013, increased to \$91.5 million during the forecasted test year – a difference of \$703,000, or 0.8%. As the above table shows, changes to individual categories are offset by changes to other categories. Thus, while it appears that recent historical Transport revenues are greater than forecasted for 2014, recent historical Commercial revenues are much less than forecasted. And so are Public Authority revenues. In fact, the shift in Commercial and Public Authority revenues is so great that differences not only offset the anticipated decrease in Transport revenues, but when coupled with the anticipated decrease in Industrial revenues (which Mr. Effron includes in his analysis), actually results in a *net anticipated increase* to the total non-residential base rate revenues for the future test year as compared to the TME June 2013. Mr. Effron states in his rebuttal testimony that he analyzed forecasted test-year sales for these Commercial and Public Authority revenue classes and

⁵ AIC's response to AG 19.11

⁶ AIC response to AG 11.01R (see below breakout for Transport revenue)

Transport Revenues \$24,526 (AG 19.11)

GDS-7 Contract Revenues 535 (AIC Sch. E-5)

Transpt. Rev. Net of GDS-7 \$23,991

concluded they were "not unreasonable." (AG/CUB Ex. 6.0, p. 5.) If they were "not unreasonable" why were they not expressly included in his actual versus forecasted revenue analysis?

As stated by Ms. Althoff, "[had] Mr. Effron undert[aken] a complete analysis, and had not simply examined a snapshot of select financial reporting classifications, the complete analysis would support the reasonableness of AIC's test year billing determinants as reflected on the comparison table presented above, and as attested to by Mr. Boggs." (Ameren Ex. 38.0 (Rev.), p. 7:144-147.)

In conclusion, Mr. Effron's adjustment to forecasted revenues should be rejected by the Commission. It ignores the broader picture in terms of the non-residential base rate revenue expectations heading into the test year. Staff supports this conclusion and the Company's analysis, which shows that the test year billing determinants reflected on the Company Schedule E-5 "do not reflect the declines in therms sales about which Mr. Effron expressed concerns based on his review of other schedules." (ICC Staff Ex. p. 30:566-580.)

11. Software Rental Revenues

AIC will install and begin operating two systems, the Enterprise Asset Management System (EAMS) and the Mobile Work Management System (MWMS), in the 2014 test year. No party disputes the need for the systems or the reasonableness of the test year costs. Starting in 2015, however, AIC will receive rental revenues from Ameren Missouri for its use of the two systems. (Ameren Exs. 17.0 (2d Rev.) (Stafford Reb.), p. 24; 17.8.)

Two parties, Staff and AG/CUB, recommended an adjustment to AIC's Operating Statement to impute these rental revenues as an offset to the test year costs of the system. (ICC Staff Ex. 4.0R p. 4; AG/CUB Ex. 1.0, p. 31.) Initially, both parties suggested offsetting these software operating expenses with a full year of anticipated rental revenue from Ameren

Missouri.⁷ However, this recommendation ignores the test year rules that prohibit reflection of costs or revenues from other years (in this case, revenues from 2015) in the test year revenue requirement. Staff and AG/CUB's approach also ignores the fact that O&M costs related to the receipt of revenues are significantly greater in 2015 than in the 2014 Test Year revenue requirement. (Ameren Ex. 17.0 (Rev.), p. 26.) And therefore if it is appropriate to impute 2015 revenues in the 2014 test year, then it is also appropriate to include those 2015 expenses for these systems. (*Id.*)

On rebuttal, both Staff and AG/CUB modified their recommendations. Now Staff is recommending a reduced adjustment of \$358,000, which was that portion of the amortization expense for the systems included in the 2014 test year. (ICC Staff Ex. 13.0, Sch. 13.01.) Staff admitted that the "level of cost for EAMS and MWMS included in the 2014 test year were less than the 2015 projected costs that would support the level of 2015 revenue from Ameren Missouri for the use of the systems." (ICC Staff Ex. 13.0, p. 5.) Staff concluded that its adjustment removes expenses for EAMS and MWMS that will not solely benefit Illinois jurisdictional ratepayers. (*Id.*)

AG/CUB also modified its approach, and now proposes a cost allocation adjustment, which reduces operating expenses by \$451,631. (AG/CUB Ex. 5.0, p. 47-48.) This amount is derived by allocating 13.53% of the software expenses of \$3.338 million for the 2014 test year to Ameren Missouri. (*Id.*)

In an effort to reduce the number of issues for consideration, AIC has agreed to support Staff's approach of a \$358,000 adjustment to operating expense. This approach appropriately

⁷ The two parties calculated those amounts differently. Staff Ex. 4.0, Sch. 4.01, calculated a \$772,000 adjustment. AG/CUB Ex. 1.3, p. 3, calculated a \$918,578 adjustment.

considers the fact that less than 50% of the expenses for the software will be incurred in the test year, and recognizes that imputation of rental revenue received in 2015 would be improper.

(Ameren Ex. 31.0 (Stafford Sur.), p. 14.)

C. Recommended Operating Income / Revenue Requirement

The Operating Income/Revenue Requirement for Rate Zone I, Rate Zone II and Rate Zone III gas services are shown on Schedule 1 of Appendix A, B, and C, respectively.

IV. COST OF CAPITAL AND RATE OF RETURN

A. Resolved Issues

1. Remaining CWIP accruing AFUDC Adjustments

Staff witness Ms. Rochelle Phipps proposed adjustments to AIC's forecast long-term debt, preferred stock and common equity balances. (ICC Staff Ex. 5.0R, p. 4.) She contended that these adjustments were necessary to avoid double-counting portions of long-term debt, preferred stock and common equity balance that were assumed by the AFDUC formula to be used to finance CWIP. (*Id.*) AIC witness Mr. Martin explained that, although he did not endorse Ms. Phipps' adjustments, the Company would accept them for purposes of this case because their impact on the Company's proposed capital structure was nominal. (Ameren Ex. 19.0 (2d Rev.) (Martin Reb.), p. 2.) Ms. Phipps did not address this issue on rebuttal. Thus, no parties contest this adjustment.

2. Preferred Stock Balance

No party recommended an adjustment to AIC's preferred stock balance. Thus, the issue is uncontested.

3. Embedded Cost of Preferred Stock

In her direct testimony, Staff witness Ms. Phipps agreed with AIC's embedded cost of preferred stock. (ICC Staff Ex. 5.0R, p. 15.)

B. Contested Issues

A healthy capital structure for a regulated utility minimizes the costs of capital while maximizing the financial strength necessary for the utility to access the capital markets under reasonable terms and in varied economic conditions. (Ameren Ex. 4.0 (Martin Dir.), pp. 3-4.)

AIC's proposed capital structure achieves those goals for AIC in the test year:

Type of Capital	Amount	Proportion of Total	Cost	Weighted Cost
Long-Term Debt	\$ 1,896,113,765	46.499%	6.534%	3.038%
Short-Term Debt	\$ 10,029,650	0.246%	1.875%	0.005%
Preferred Stock	\$ 58,696,935	1.439%	4.979%	0.072%
Common Stock	\$ 2,112,959,334	51.816%	10.400%	5.389%
Bank Facility Costs				0.062%
Total	\$ 4,077,799,693	100.000%		8.566%

(Ameren Ex. 33.1.) This capital structure will support AIC's current credit rating and promote its continued access to debt capital at a reasonable cost. (Ameren Ex. 4.0, pp. 5-6.) The Commission should approve this capital structure and the attendant reasonable capital costs.

1. Short-Term Debt Balance

Staff proposes to increase the balance of short-term debt in AIC's test year capital structure to 0.28%, largely to reflect Staff's recommended rate increase. (ICC Staff Exs. 5.0R, p. 5; 14.0, Sch. 14.01.) For the reasons stated in this Brief and based on the evidence presented by AIC in this proceeding, the Commission should not approve Staff's proposed revenue requirement and the resulting rate increase. The Commission should approve the rate increase requested by AIC. Consequently, the Commission should approve AIC's test year short-term debt balance, which reflects AIC management's best estimate of AIC's monthly short-term debt balances through 2014. (Ameren Ex. 19.0 (2d Rev.) (Martin Reb.), p. 3.)

2. Long-Term Debt Balance

The record reflects a single point of disagreement on AIC's test year balance of long-term

debt. The long-term debt balance should include the redemption cost AIC incurred in connection with a 2012 debt refinancing transaction that yielded positive net present value economics. Staff, however, believes the Commission should disallow a majority of that cost. AIC's position is premised on the prudence of the transaction; Staff's on a misapplication of Commission precedent. Staff's position is also legally untenable, and it results in a grossly disproportionate impact on AIC's test year revenue requirement. Ultimately, the question is whether AIC's redemption of the debt in 2012 was prudent. As explained below, it was. The Commission should approve full recovery of AIC's prudently incurred redemption cost.

In October 2008, during the height of the financial crisis, AmerenIP issued \$400 million of debt with a coupon rate of 9.75% due in 2018. (Ameren Ex. 4.0 (Martin Dir.), p. 9.) In October 2010, AmerenIP merged with AmerenCILCO into AmerenCIPS, forming AIC. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 1 (Jan. 10, 2012). In July 2012, AIC announced a tender offer to repurchase the 9.75% notes, and in August 2012, it redeemed \$87.1 million of the notes upon the payment of premiums totaling \$33.4 million. The same month, AIC issued \$400 million of 2.70% senior secured notes due in 2022. (Ameren Exs. 4.0, p. 9; 19.0 (2d Rev.) (Martin Reb.), pp. 3-4; Ameren Sch. WPD-3 - Gas (Part 4), p. 2.) AIC used the net proceeds of that refunding issue to fund the premium cost of the 9.75% bond redemption. The combined transaction yielded positive net present value economics on a matched maturity basis and resulted in annual interest savings for AIC. It lowered the average cost and extended the average maturity of AIC's long-term debt portfolio, and mitigated the refinancing risk associated with AIC's 2018 debt tower. (Ameren Exs. 4.0, pp. 9-10; 19.0 (2d Rev.), p. 4.) Put simply, the combined transaction was an economically favorable one, and the associated cost to redeem the 9.75% bonds was thus prudently incurred. (Ameren Ex. 19.0 (2d Rev.), pp. 3-4.)

Staff, nevertheless, would disallow a majority of that cost. (ICC Staff Ex. 5.0R, pp. 6-7.) Staff recommends that the Commission disallow 57.41% of the premiums paid by AIC to redeem the 9.75% bonds, which equates to zero recovery on the first \$50 million of the \$87.1 million of bonds redeemed. (*Id.*) Staff bases its proposal on the Commission's orders in AIC's last two gas rate cases: Dockets 09-0306, et al. (cons.) and 11-0282. (*Id.*) The issues and facts in those cases, however, are different from those at bar. Consequently, any adjustment to AIC's long-term debt balance premised on those dockets is misplaced and should be rejected.

In Docket 09-0306, the Commission addressed the issue of whether the principal amount of the October 2008 AmerenIP debt issuance should be included in that utility's test year capital structure. *Cent. Ill. Light Co.*, Dockets 09-0306, et al. (cons.), Order, p. 143 (Apr. 29, 2010). The Commission found AmerenIP had issued \$50 million more long-term debt than it required for utility operations and, as such, \$50 million of the principal amount of the 9.75% debt issuance should not be included in AmerenIP's long-term debt balance. *Id.* In Docket 11-0282, the Commission again addressed the propriety of, and disallowed, \$50 million of the \$400 million principal of the 9.75% bond issuance, this time for the purpose of calculating the now-merged utilities' embedded cost of long-term debt. *Ameren Ill. Co.*, Docket 11-0282, Order, pp. 75-76. Staff relies on these orders to propose here that AIC not recover the cost it incurred to redeem the first \$50 million of the \$87.1 million in 9.75% bonds that it redeemed in 2012. (ICC Staff Ex. 5.0R, pp. 6-7.)

The issue in this case is different than in the previous dockets. The issue here is the cost AIC incurred in 2012 to redeem a portion of the October 2008 9.75% bond issuance in connection with a transaction that secured for AIC a lower rate and extended the maturity of its long-term debt. (Ameren Ex. 19.0 (2d Rev.), p. 4.) The Commission's past disallowance of a

portion of the total principal 9.75% issuance is irrelevant. It does not warrant an automatic adjustment to the premiums AIC paid in 2012 to redeem that debt.

The facts of this case also are different from the facts of Dockets 09-0306, et al. (cons.) and 11-0282. When the Commission reviewed the AmerenIP October 2008 debt issuance in Dockets 09-0306, et al. (cons.), AmerenIP, AmerenCIPS, and AmerenCILCO were separate legal entities with separate capital structures and separate rates. (Tr. 555-56.) The Commission premised its adjustment in that case on the propriety of an intercompany loan among those separate legal entities—specifically from AmerenIP to AmerenCIPS. Dockets 09-0306, et al. (cons.), Order, p. 143. The view proffered by Staff in those dockets, and accepted by the Commission, was that AmerenIP should have called back the \$50 million money pool loan made to AmerenCIPS in October 2008 instead of issuing all \$400 million in long-term debt. (Tr. 556-57; Ameren Ex. 33.0 (Martin Sur.), p. 2.) The concern was cross-subsidization between AmerenIP and AmerenCIPS. (Ameren Ex. 33.0, p. 2.)

This case involves *AIC*, however, which was formed upon merger of those entities. (Ameren Ex. 19.0 (2d Rev.), p. 5.) That merger negates any cross-subsidization concern. *AIC* has a capital structure that is common to all rate zones and that incorporates each of the merged entities. (*Id.*) The \$50 million in question is a necessary component of *AIC*'s capital structure. (Ameren Ex. 33.0, p. 2.) Staff agrees. At hearing, the Staff witness who sponsored Staff's adjustment to *AIC*'s test year long-term term debt balance, Ms. Rochelle Phipps, testified:

Q. . . . Do you believe that today as we sit here Ameren Illinois Company has \$50 million of capital that is not being used to provide or support utility service?

A. No.

(Tr. 557:17-21.) Whether AmerenIP or AmerenCIPS ultimately required the debt is irrelevant to *AIC*'s current capital structure. (Ameren Ex. 33.0, p. 2.) Since the \$50 million of long-term debt

was required by AIC, any cost disallowance associated with tender of the bonds is unwarranted.

The Commission should premise recovery of the redemption cost at issue on the law, and the law here is clear: AIC is entitled to recover its prudently incurred costs in providing service. *Citizens Util. Bd. v. Ill. Commerce Comm'n*, 166 Ill. 2d 111, 126 (1995); *Bus. & Prof'l People for the Pub. Interest vs. Ill. Commerce Comm'n*, 279 Ill. App. 3d 824, 831-32 (1996). The Commission defines prudence as “that standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions had to be made.” *Ill. Commerce Comm'n v. Peoples Gas Light & Coke Co.*, Docket 00-0720, Order, p. 6 (Jan. 24, 2002) (quoting *Ill. Commerce Comm'n v. Commonwealth Edison Co.*, Docket 84-0395, Order, p. 17, 1987 Ill. PUC LEXIS 68, *34 (Oct. 7, 1987)). In evaluating the prudence of a management decision, “[h]indsight review is impermissible.” *Id.* The Commission has cautioned, “[i]mprudence cannot be sustained by substituting one’s judgment for that of another.” *Id.*

Staff does not dispute that AIC’s 2012 redemption of the 9.75% bonds was prudent. Nor could it. That redemption combined with the 2.70% reissuance represents an economically favorable transaction. (Ameren Ex. 19.0 (2d Rev.), pp. 3-4.) AIC’s expert witness on this issue, Mr. Ryan Martin, explained that when utility bonds near or reach their maturity, generally, they are refinanced or replaced with a bond that matures at a time farther into the future, to mitigate the utility’s financing risk. (Ameren Ex. 33.0, p. 4.) Also, when the opportunity exists, the utility will replace a bond with a high coupon rate with a bond with a lower coupon rate to reduce the utility’s costs, which ultimately benefits its customers. (*Id.*) That is precisely what happened here. The combined 2012 transaction resulted in positive net present value economics on a matched-maturity basis, reduced AIC’s average cost of debt, and extended the average

duration of the AIC's long-term debt portfolio. (*Id.*, pp. 4-5.) Indeed, even if AmerenCIPS had paid back the \$50 million loan in 2008 and replaced it with its own long-term debt, AIC likely would have redeemed that debt in 2012 as well, given the new rate of 2.70%, which is much lower than the relatively high interest rates experienced during the 2008 credit crisis. (Ameren Exs. 19.0 (2d Rev.), p. 5; 33.0, p. 3.) The combined 2012 transaction was financially sound, and it benefited both AIC and its customers. (Ameren Exs. 19.0 (2d Rev.), pp. 3-4; 33.0, p. 5.) It reflects AIC management's prudent judgment. To suggest that AIC should not have redeemed the bonds in 2012 and incurred the attendant cost would be to substitute hindsight review for that prudent judgment. That is not a legally sustainable basis on which to disallow any portion of the cost of the 2012 transaction, including the premiums paid by AIC to redeem the bonds. *See Ill. Commerce Comm'n*, Docket 00-0720, Order, p. 6 (Jan. 24, 2002).

The Commission also should reject Staff's adjustment because it is grossly disproportionate. In Docket 11-0282, the Commission approved full recovery at 9.75% of \$350 million of the \$400 million total issuance. It allowed recovery of the remaining \$50 million at the weighted average cost of debt for Ameren, 7.39%. *Ameren Ill. Co.*, Docket 11-0282, Order, pp. 70, 76. In other words, the Commission approved 100% recovery of the actual cost of debt on \$350 million of the issuance, and approximately 75% recovery on the remaining \$50 million. (Ameren Ex. 19.0 (2d Rev.), p. 6.) That equates to a disallowance of approximately 3% of the total cost of the 9.75% debt. (*Id.*) Yet here, Staff would disallow a majority—57.41%—of the prudent cost to redeem the debt. (ICC Staff Ex. 5.0R, pp. 6-7.) Staff's proposal effectively disallows entirely the redemption cost associated with the first \$50 million of the \$87.1 million

of the bonds AIC redeemed.⁸ That adjustment has an annual revenue requirement impact of approximately \$1 million. (Ameren Ex. 19.0 (2d Rev.), p. 4.) It is unquestionably inconsistent with the Commission's prior 3% adjustment, and it unduly punishes AIC for its prudent 2012 refinancing action. The Commission should reject Staff's adjustment, and allow AIC to recover in full the costs it prudently incurred in connection with that transaction.

3. Common Equity Balance

AIC's projected common equity balance for the test year is \$2.113 million, or 51.816% of its test year capital structure. (Ameren Ex. 33.1.) Staff and IIEC argue that balance should be reduced to reflect adjustments that are neither supported by the record evidence nor aligned with Commission precedent. The Commission should reject each adjustment.

a. Purchase Accounting/Goodwill

In developing its proposed future test year 2014 capital structure, the Company adjusted its common equity balance by subtracting \$356,284,459. This self-adjustment excludes the effects of purchase accounting related to Ameren Corporation's 2004 acquisition of the Illinois Power Company (Illinois Power or IP), as required by the Commission's order in Docket 04-0294.

Staff proposes to instead subtract \$461,821,058 from the common equity balance, which Staff asserts is the sum of: (1) \$356,284,459 of balance sheet purchase accounting adjustments that are collapsed into ICC Account 114; and (2) \$105,536,599 in income statement purchase accounting adjustments, which flowed through to retained earnings. Staff's adjustment should be rejected, as it has been by the Commission in two dockets before, because income statement purchase accounting adjustments which flowed through to retained earnings have been

⁸ $\$50,000,000 / 87,100,000 = 0.5741$.

eliminated through dividends, so that Staff's proposal does not fully eliminate the effects of purchase accounting.

Staff claims, as its basis for this recommendation, that in Docket 04-0294 the Commission ordered AIC to reverse purchase accounting adjustments associated with the acquisition of IP. (ICC Staff Ex. 5.0R, p. 10.) AIC agrees that, pursuant to the order in Docket 04-0294, all effects of purchase accounting related to that transaction should be removed for ratemaking purposes. Thus, AIC agrees with Staff that the \$356 million balance of purchase accounting adjustments that are collapsed into Account 114 should be subtracted from AIC's common equity balance. (Ameren Ex. 17.0 (Rev.) (Stafford Reb.), p. 18.) But AIC has already made this adjustment: AIC adjusted its common equity balance by subtracting the \$356 million related for the purpose of calculating its projected capital structure. (Ameren Ex. 4.0 (Martin Dir.), p. 12.) Assuming that Staff is not recommending a double reduction of this amount, the \$356 million adjustment to account for the impact of purchase accounting on balance sheet accounts (which are netted and collapsed into Account 114) is not in contested by Staff. (Ameren Ex. 17.0 (Rev.), p. 19.)

IIEC witness Mr. Gorman proposed, in his direct testimony, to exclude an additional \$54.4 million from the common equity balance to reflect the difference between AIC's \$356 million self-adjustment and AIC's \$411 million of goodwill assets. As discussed below, this adjustment contravenes the Commission's order in Docket 04-0294—and was expressly rejected in Docket 11-0282.

Staff's proposal to further reduce the common equity balance by \$105 million for net income related purchase accounting adjustments also remains in controversy. These adjustments impact AIC's income statement, as opposed to its balance sheet as is the case with the \$356

million adjustment discussed above. Staff continues to claim that AIC has not reversed these net income related purchase accounting adjustments for ratemaking purposes. Staff further asserts AIC's Account 114 balance does not include \$105 million of net income related purchase accounting adjustments that flowed through retained earnings. (ICC Staff Ex. 14.0, p. 10.) As detailed below, the Commission should reject Staff adjustment for the following reasons:

- The Commission has rejected Staff proposals on this same issue in the last AIC gas rate case, Docket 11-0282, as well as in AIC's formula rate case, Docket 12-0001.
- AIC's Common Equity Balance comports with Docket 04-0294.
- AIC has reversed all net income related purchase accounting for ratemaking purposes by removing the effects of purchase accounting from the income statement balances of revenues and expenses and eliminating the derivative effects of purchase accounting related retained earnings from the retained earnings balance through the payment of dividends.
- Staff's adjustment contravenes the Commission's Order in Docket 04-0294 because it does not remove all purchase accounting associated with the acquisitions at issue.

AIC's Common Equity Balance Comports with the Order in Dockets 04-0294.

In Docket 04-0294, the Commission approved Ameren Corporation's acquisition of Illinois Power, and also approved the accounting for all regulatory purposes that followed. *Illinois Power Co.*, Docket 04-0294, Order, pp. 33-34 (Sept. 22, 2004). Accounting standards required that the Company "push down"⁹ any investment onto Illinois Power's books, and also required that the Company adjust both assets and liabilities to fair market value. *See id.*, pp. 32-34. Because the Commission sets rates based upon the original book value of plant in service, altering of account balances to reflect market value gave rise to concern. *Id.* Therefore, in order to maintain accounting of the cost basis for Illinois Power in a manner neutral to the change in

⁹ "Purchase accounting" is a term that, as to these controverted issues, relates to the accounting entries that were made pursuant to applicable accounting standards at the time of IP's acquisition.

corporate ownership, the Commission ordered that all purchase accounting be reversed for ratemaking purposes. The Commission concluded:

Based on the record, and subject to the Applicant's agreement to reverse the effect of push down accounting for state regulatory purposes, the Commission concludes that IP's proposed accounting entries for elimination of the Intercompany Note . . . are reasonable and in accordance with applicable accounting requirements, and should be approved. The Commission also adopts the recommendation of Staff witness Ms. Pearce that the impact of push down accounting should be collapsed into Account 114, plant acquisition adjustments, for all Illinois regulatory purposes such as reporting in Form 21 ILCC.

Illinois Power Co., Docket 04-0294, Order, pp. 33-34.

As Mr. Stafford explained, this regulatory accounting has been consistently followed and applied in rate cases subsequent to the acquisition. (Ameren Ex. 17.0 (Rev.), p. 18.) In each rate proceeding since the Order issued in Docket 04-0294, including this one, the Company has reversed the effects of purchase accounting collapsed into Account 114. (*Id.*, p. 22; Ameren Exs. 31.0 (Stafford Sur.), pp. 23-27; 31.10.)

Staff's Purchase Accounting Adjustments Have Now Been Rejected in Dockets 11-0282 and 12-0001.

Staff has now proposed purchase accounting adjustments in three Ameren Illinois dockets – 11-0282, 12-0001 and 12-0293. The Commission has rejected these adjustments each time. In Docket 11-0282, AIC proposed to remove from its common equity balance all effects of the accounting entries related to purchase accounting, in a manner consistent with the Commission's Order in Docket 04-0294. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 48 (Jan. 10, 2012). Staff agreed that an adjustment was necessary to comply with the Commission's order in Docket 04-0294, but proposed to remove only the goodwill balance from common equity, while leaving other purchase accounting entries in place. *Id.*

AIC argued that the Commission's findings in Docket 04-0294 were intended to reverse

the push-down adjustments so that the push-down accounting had a neutral effect on the cost of service. *Id.* Staff's adjustment would reverse only one of the push-down adjustments, leaving the others in place, and would therefore lower the cost of service, instead of having a neutral effect on the cost of service, as the Commission had intended. *Id.*

Staff expressed concern that AIC had not made an adjustment to reflect the absence of common dividends paid from the retained earnings associated with the purchase accounting. *Id.* at 52. Staff argued that dividends do not represent a reversal of purchase accounting adjustments to net income, because dividends are not paid specifically from a particular type of earnings. *Id.*

The Commission found that Staff had failed to respond to AIC's evidence showing that the purchase accounting adjustments were netted against goodwill, or to the evidence that the two items were intertwined in a manner that one element could not be extracted. *Id.* at 54. The Commission believed that, in this regard, Staff's arguments were overly simplistic. *Id.*

In Docket 12-0001, AIC once again adjusted its common equity balance by excluding the effects of purchase accounting. *Ameren Ill. Co.*, Docket 12-0001, Order, p. 115 (Sept. 19, 2012). Staff recommended an additional reduction in common equity, which would remove: (i) purchase accounting adjustments that had been collapsed into Account 114; and (ii) income statement purchase accounting adjustments that flowed through to retained earnings. *Id.* at 111-12.

Staff proposed an adjustment to the common equity balance raising concerns related to AIC's payment of dividends to Ameren. Staff disagreed with AIC's contention that the dividends reduced the retained earnings resulting from purchase accounting. Instead, Staff contended, amounts paid in dividends can and had been transferred from retained earnings to other common stock accounts. *Id.* at 112. AIC countered that dividends are clearly paid in cash,

but the payment of dividends reduces retained earnings (a component of equity), and was contingent upon the Company having retained earnings from which to pay the dividends. *Id.* at 118.

AIC argued that Staff's approach would reverse the collapsing of the purchase accounting entries, without considering whether the earnings were actually still retained by AIC, and while leaving the effects of push-down accounting partially in place. *Id.* at 116. It appeared to AIC and the Commission that Staff's discussion of transfers between Ameren and AIC was intended to indicate an improper accounting transfer. *Id.* at 119. The Commission found that there was no evidence to support such a contention. *Id.*

The Commission once again rejected Staff's position on this issue. The Commission found that, despite Staff's implications, it could not find an instance where AIC had violated any accounting rules. *Id.* Because it appeared to the Commission that AIC had followed all accounting rules and Commission orders related to purchase accounting, the Commission rejected Staff's proposed adjustment to the common equity balance. *Id.*

Staff also raised these same issues in Docket 12-0293. *Ameren Ill. Co.*, Docket 12-0293, Order, p. 107 (Dec. 5, 2012). The Commission adopted Staff's imputed capital structure proposal, and therefore took no action on Staff's purchase accounting adjustment. *Id.*

Thus, in each of the cases in which Staff has raised arguments related to the removal of purchase accounting adjustments from AIC's common equity balance, the Commission has rejected Staff's position, finding instead that AIC's treatment of the purchase accounting was proper.

AIC Has Reversed All Net Income Related Purchase Accounting For Ratemaking Purposes.

Staff argues that (notwithstanding the adjustment to common equity to reflect the balance sheet adjustments collapsed in Account 114), AIC has not reversed \$105 million of net income related purchase accounting adjustments for ratemaking purposes. (ICC Staff Ex. 14.0, p. 10.) But in fact, AIC has reversed all net income related purchased accounting for ratemaking purposes.

Net income purchase accounting takes two forms—the first is an impact on revenue and expense balances on the income statement, and the second is the derivative effect of purchase accounting retained earnings. (Ameren Ex. 31.0, pp. 23-24.) The order in Docket 04-0294 requires AIC to reverse the effect of push down accounting for state regulatory purposes, and AIC has done so consistently with respect to both forms of net income purchase accounting.

AIC has removed the effects of purchase accounting from the income statement balances of revenues and expenses in this case, including adjustments made to Account 926 to remove purchase accounting. (Ameren Ex. 31.0, p. 23.) The elimination of purchase accounting within income tax expenses is accomplished through transition to the test year calculation that excludes purchase accounting on Part 285 Schedule 5a. (*Id.*) The Company has consistently eliminated purchase accounting from revenues and operating expenses in this manner in each rate proceeding since the Order issued in Docket 04-0294. (*Id.*)

AIC has also eliminated the derivative effects of purchase accounting related retained earnings from the retained earnings balance in this and past rate proceedings. (Ameren Ex. 31.0, pp. 23-27.) AIC's evidence reflects a detailed analysis of the derivative effects of purchase accounting related retained earnings. (Ameren Exs. 31.0, pp. 23-27; 31.10.) For each year going back to 2005, AIC has differentiated between net income attributable to purchase accounting and net income *not* attributable to purchase accounting. Purchase accounting related net income, less

the portion of common dividend payments attributed to purchase accounting net income,¹⁰ was calculated to determine if any ratemaking adjustment was needed to reverse the effects of purchase accounting for regulatory purposes. (Ameren Exs. 31.0, pp. 24-27; 31.10.)

Although AIC cannot simply reverse the derivative effects of purchase accounting net income on its books, as Staff implies, AIC has reduced retained earnings with a ratemaking adjustment when the purchase accounting related to net income retained by AIC has a positive balance for the test year or reporting year for Form 21 ILCC. (Ameren Ex. 31.0, pp. 22-23.) In Docket 07-0585 (cons.) AIC made such a ratemaking retained earnings adjustment, since a portion of purchase accounting related retained earnings was retained by AIC. (Ameren Ex. 31.0, p. 24.) Subsequently, the balance of purchase accounting related retained earnings retained by AIC has been negative, and no adjustment has been made.

The calculated ratemaking retained earnings adjustment is negative, in the amount of (\$2,834,790). (*Id.*) AIC has not made an adjustment to add an amount to retained earnings (and thus to the common equity balance) to eliminate or reverse the negative balance. (*Id.*) If any adjustment, were to be made, however, an increase to common equity would be appropriate. (*Id.*)

In summary, net income related to purchase accounting is no longer retained by AIC, as the balance recorded to retained earnings has been paid out in common dividends, consistent with the Commission's finding in Docket 12-0001. (Ameren Ex. 31.0, p. 30.) Thus, Staff's proposed adjustment to the common equity balance for net income purchase accounting is not appropriate.

¹⁰ As a matter of financial accounting, payment of dividends has the effect of reducing retained earnings, which is a component part of shareholders' equity on the balance sheet. (Ameren Ex. 31.0, pp. 27-28.)

Staff also suggests that AIC's Account 114 balance does not include \$105 million of net income-related purchase accounting adjustments that flowed through retained earnings, and this is contrary to the requirement of Docket 04-0294. (ICC Staff Ex. 14.0, p. 10.) However, there are two flaws in Staff's position. First, it conflates the requirement from Docket 04-0294 that AIC "reverse the effect of push down accounting for state regulatory purposes" with the Commission's decision to "adopt[] the recommendation of Staff witness Ms. Pearce that the impact of push down accounting should be collapsed into Account 114, plant acquisition adjustments, for all Illinois regulatory purposes..." *Illinois Power Co.*, Docket 04-0294, Order, pp. 33-34. The first requirement is broader, since it speaks to "effects of push down accounting" generally, while the second requirement refers more narrowly to Account 114. Staff improperly assumes that the two requirements are one and the same. Second, Staff's position is flawed because it confuses Account 114, a balance sheet account, with AIC's income statement and other financial statements, which are separate and distinct. (Tr. 372-73.) As a matter of accounting, these statements cannot be intermingled, as would have to happen for the \$105 million of income statement purchase accounting to be reflected in Account 114 as Staff suggests. As Mr. Stafford explained:

Q. Can you explain why the net income related purchase accounting adjustments are not collapsed into ICC Account 114?

A. 114 is a balance sheet account, and the impacts on net income, separate financial statement and income statement impacts [on]¹¹ retained earnings [are] part of the statement of retained earnings. They're separate financial statements. So when you look at collapsed purchase accounting [into] account 114, a balance sheet account, I'm not sure from an accounting standpoint there is really a way to do that where you would intermingle different financial statements together from a collapsing standpoint.

¹¹ Reflects suggested transcript changes.

(Tr. 372:10-23.)

Staff's Adjustment Contravenes the Commission's Order in Docket 04-0294 Because it Does Not Remove All Purchase Accounting Associated with the Acquisitions at Issue.

In fact, it is Staff's proposal that violates the order in Docket 04-0294. (Ameren Ex. 17.0 (Rev.), p. 20.) As discussed above, Staff's proposal to remove \$105 million in net income purchase accounting fails to account for the fact that net income purchase accounting has been removed by AIC for ratemaking purposes, and in particular that the effect of net income purchase accounting on retained earnings has been eliminated through dividends. Staff's proposal, then, would have the effect of not reversing the effects of purchase accounting, in contravention of the order in Docket 04-0294.

A further reduction to common equity for amounts unrelated to purchase accounting is not consistent with the Order issued in Docket 04-0294, as the Commission concluded in both Docket 11-0282 and Docket 12-0001. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 54; *Ameren Ill. Co.*, Docket 12-0001, Order, pp. 118-19s. Staff's attempt to apply accounting and purchase accounting in support of its proposed adjustment is incorrect for the reasons stated above. As illustrated on Ameren Exhibit 31.10 and ICC Staff Exhibit 14.0 Attachments A and B, common dividend payments have reduced the balance of both purchase accounting and non purchase accounting net income transferred to retained earnings, resulting in a negative balance for purchase accounting earnings retained by AIC at the end of 2012. Ms. Phipps's repeated attempt to misstate the AIC's purchase accounting adjustments, in defiance of the Order issued in Docket 04-0294, should once again be rejected by the Commission.

IIEC's Adjustment to the Common Equity Balance for Goodwill is Contrary to the Docket 04-0294 Order and Was Rejected in Docket 11-0282.

In subtracting the entire goodwill balance of \$411 million without netting all other

purchase accounting adjustments, Mr. Gorman overstates the required reduction to common equity. (Ameren Ex. 9.0 (Rev.) (Althoff Dir.), p. 41.) Thus, his proposal directly contradicts the Commission's orders in Dockets 04-0294 and 11-0282 expressly addressing this issue. (*Id.*, p. 42.) In Docket 11-0282, the Commission entertained, and rejected, a proposal identical to the one made by Mr. Gorman in the instant case:

Staff recommends removing from the common equity balance the balance of goodwill on AIC's books. AIC argues that Staff's proposal reduces the common equity balance by too much because a portion of the goodwill balance on its books is offset by purchase accounting transactions...As previously discussed, the Commission understands purchase accounting to be technical and complex. It appears to the Commission that while easy to understand, Staff's recommendation on this issue is overly simplistic. The Commission concludes that the record supports AIC's position that purchase accounting and goodwill are intertwined. It is clear to the Commission that Staff's recommendation does not reflect this fact. The record supports AIC's position that the common equity balance should be reduced by \$350,833,351. This adjustment reflects a netting of accounting adjustments against the goodwill balance which is supported by the record of this proceeding. Substituting this value into Staff Ex. 24.0, Schedule 24.03 in place of the value used by Staff, \$411,000,000, produces an average common equity balance of \$1,889,251,000, which the Commission believes should be used for purposes of setting rates in this proceeding.

Ameren Ill. Co., Docket 11-0282, Order, pp. 53-54.

Mr. Gorman's proposal represents an abrupt—and unexplained—departure from this clear Commission precedent. Moreover, Mr. Gorman did not pursue his adjustment on rebuttal. The Commission should not approve it.

b. Non-Utility Investment

In direct testimony, IIEC proposed three adjustments to AIC's common equity balance. One of these was to remove non-utility investments of \$13.8 million from AIC's common equity balance. (IIEC Ex. 1.0, p. 10.) However, these investments are not funded exclusively from

AIC's equity, but rather from a mix of AIC's overall debt and equity. (Ameren Ex. 17.0 (Rev.), p. 23.) Any adjustment to the common equity balance would require a corresponding adjustment to AIC's debt, in order to ensure that it does not impact AIC's overall rate of return. *Id.* AIC's response is un rebutted. Neither IIEC nor any other party has reiterated this proposal in rebuttal or contested AIC's explanation for rejecting this proposal. Thus, IIEC's proposal should be rejected.

c. Forecast Equity Infusion

AIC anticipates it will receive an equity infusion of \$50 million from Ameren in June 2014 based on its budgeting and financial planning processes and AIC management's best judgment as to the balance of common equity in the test year. (Ameren Ex. 19.0 (2d Rev.), p. 18; Ameren Sch. WPD-1 – Gas (Part 3), p. 2.) IIEC initially recommended disallowance of the expected equity infusion because it is not “known and measurable.” (IIEC Ex. 1.0, p. 12.) But that is not the standard for cost recovery in this proceeding. Rather, the rates established in this proceeding, including the components of those rates, must be “just and reasonable.” 220 ILCS 5/9-101, 5/9-201(c); *Consumers Ill. Water Co.*, Docket 03-0403, Order, p. 22 (Apr. 13, 2004). And the ratemaking inputs in a future test year proceeding are forecasts that, by their nature, cannot be “known and measurable.” *Cf.* 83 Ill. Adm. Code § 287.40 (permitting pro forma adjustments to an historical test year for all “known and measurable changes”) with 83 Ill. Adm. Code § 287.30 (updates to a future test year need not be “known and measurable.”). Perhaps recognizing its oversight, IIEC abandoned its proposal in its rebuttal filing. (*See generally* IIEC Ex. 3.0.) The Commission likewise should reject it.

4. Cost of Short-Term Debt, Including Credit Facility Fees

AIC's short-term debt balance consists exclusively of borrowings under its credit facilities with participating banks. (Ameren Ex. 4.0 (Martin Dir.), p. 6.) Therefore, the cost of

AIC's short-term debt is derived from the cost to AIC to establish and utilize those facilities—certain fees and interest on AIC's borrowings. (*Id.*, pp. 6-7.) AIC and Staff disagree on the interest applicable to the Company's short-term borrowings in the test year. The interest pricing is a function of LIBOR and AIC's credit ratings provided by Moody's Investor Service, Inc. (Moody's) and Standard and Poor's Rating Services (S&P). (*Id.*; Ameren Sch. WPD-2 – Gas (Part 3), p. 2.) Based on AIC's current Moody's rating of Baa2 and S&P rating of BBB-, AIC's credit facilities bear interest at an annual rate of LIBOR plus 1.275%. (*Id.*) Economic forecasts indicate an average LIBOR of 0.6% for 2014. Accordingly, the projected interest on short-term debt for the test year is 1.875% (0.6% + 1.275%). (Ameren Exs. 4.0, p. 7; 33.1.)

Staff would adjust that pricing downward. Staff speculates that AIC will receive a rating upgrade from S&P which will result in interest on AIC's credit facilities at a rate of LIBOR plus 1.075%. (ICC Staff Ex. 5.0R, pp. 13-14; Ameren Sch. WPD-2 – Gas (Part 3), p. 2.) Staff speculates the rating upgrade will be a direct result of Ameren Corporation's divestiture of its merchant generation affiliate, anticipated in December 2013. (ICC Staff Ex. 5.0R, pp. 13-14.) But Staff's speculation is just that—*speculation*. And the basis for Staff's speculation is narrow at best. The Commission should evaluate Staff's speculation with caution, and reject it. AIC's comprehensive approach to forecasting its cost of debt in the test year is a far superior approach.

Staff bases its speculation on a single publication of a sole credit reporting agency—the S&P March 14, 2013 Research Update. (ICC Staff Ex. 5.0R, p. 13; Ameren Ex. 19.0 (2d Rev.), pp. 7-8.) According to Staff, that report notes the “high probability of a further upgrade [from S&P] following the completion of the merchant sale.” (ICC Staff Ex. 5.0R, p. 13:236-37.) This places too much emphasis on a single source. Indeed, the S&P report itself warns against such absolute reliance: “the content [of the report] should not be relied upon and is not a substitute

for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions.’” (Ameren Ex. 19.0 (2d Rev.) (Martin Reb.), p. 8.)

However, no one can predict with certainty the actions of the ratings agencies. Thus, it is a more reasonable approach to rely on AIC’s current credit rating and resultant credit facility pricing in calculating the interest on AIC’s credit facilities for the test year. (Ameren Ex. 4.0, pp. 14-15.) The Staff witness who sponsored Staff’s adjustment to AIC’s test year cost of short-term debt, Ms. Phipps, seemingly would agree with this concept. She testified: “The most accurate indicator of a future interest rate is the most recent interest rate.” (ICC Staff Ex. 5.0R, p. 7:128-29.) The Commission should approve AIC’s test year cost of short-term debt as AIC has proposed it, at the most recent rate of 1.875%.

5. Embedded Cost of Long-Term Debt

Ameren Illinois proposes an embedded cost of long-term debt of 6.534%; Staff recommends 6.28%. (Ameren Ex. 33.1; ICC Staff Ex. 14.0, Sch. 14.01.)¹² The difference is largely attributable to the rebalancing implications of Staff’s adjustment to remove 57.41% of the cost incurred by AIC to redeem \$87.1 million of 9.75% bonds, as discussed in Section IV (B)(2) *supra*. For the reasons set forth in that section, the Commission should not approve Staff’s adjustment. The Commission also should not approve Staff’s related recommended cost of long-term debt. It should instead approve an embedded cost of long-term debt of 6.534% for AIC for the test year.

¹² As discussed in Section III (B)(1), AIC made an upward adjustment to the forecasted cost of debt related to the planned \$500 million debt financing scheduled for December 2013 because the annual interest expense for debt refinancing is expected to increase by about \$2.1 million.

6. Cost of Common Equity

The revenue requirement disparity associated with the Return on Equity (ROE) between AIC and Staff is approximately \$15 million¹³, and thus presents the most significant financial issue in this docket. AIC is proposing to substantially increase rate base by investing in its delivery service plant, and therefore the return opportunity afforded to investors is critical, given that AIC will be competing for investor capital as it sets forth to execute its plans to maintain and improve its gas delivery system. As AIC witness Mr. Craig Nelson testified, AIC expects to invest \$239 million in 2013-2014. (Ameren Ex. 16.0 (2d Rev.) (Nelson Reb.), p. 3.)

As AIC invests in its system to maintain and improve the safe and reliable delivery of gas to customers in its territory, AIC must effectively compete for capital with other business enterprises. Moreover, as AIC witnesses Mr. Nelson and Mr. Robert B. Hevert noted, AIC's capital expenditures going forward will be within the context of a rising interest rate environment, as the interest rate on long term U.S. treasury bonds have moved higher in recent months. (*Id.*, p. 4; Ameren Ex. 20.0 (Hevert Reb.) pp. 3-7; *see also* Ameren Ex. 34.0 (Rev.), (Hevert Sur.) pp. 5-6, Table 1).)

AIC views the current interest rate environment in relation to the cost of AIC's capital as a significant factor in today's financial market place. As discussed below, long-term U.S. treasury rates are considered as a proxy for the risk free rate, and thus have substantial importance to the pricing of equities and securities in the minds of investors.

Ultimately, the cost of capital and equity are not just theoretical, but have real import upon the operations and service quality of AIC over time. The return approved in this proceeding must be commensurate with investor expectations, otherwise, as Staff notes, service

¹³ See ICC Staff Exhibit 10.05 for each rate zone, listing the total cost of capital amounts proposed vs. AIC's proposal.

quality could be impaired. (Staff Ex. 5.0R, p. 2; Tr. 561.) As detailed in the arguments presented below, the measurement of ROE is essentially an empirical assessment of investor expectations given a broader market of investment opportunities.

As the evidence in the record demonstrates, investor expectations can be measured by competent financial analysis that includes both Discounted Cash Flow analyses and Capital Asset Pricing Models (DCF and CAPM respectively). Given that the recent rise in interest rates is an important consideration in this case, the CAPM model is more critical as that model directly incorporates the importance of U.S. Treasury rates on overall market conditions and expectations. (*See generally* Ameren Exs. 5.0 (Hevert Dir.) p. 22; Ex. 20.0, p. 3-4, 28)

As detailed below, the Company has presented financial analysis by its expert, Mr. Robert Hevert, to support its request that a return on equity equivalent to 10.4% be used for the purpose of setting gas rates. Mr. Hevert's analysis presents the superior position among the three parties that have proposed an ROE, those parties being AIC, IIEC and Staff. In contrast to Mr. Hevert's analysis, the two opposing witnesses from Staff and IIEC, Ms. Rochelle Phipps and Mr. Michael Gorman, have presented artificially low ROE recommendations of 8.81% and 9.10% respectively. The low recommendations of Staff and IIEC are the product of unsupported methodologies oriented toward the goal of lower overall rates at the expense of appropriate consideration of relevant market conditions and perspectives. As the evidence in this case demonstrates, the recommendations of Staff and IIEC are unreasonably low and cannot support a reasonable rate of return or the financial integrity of AIC.

Moreover, despite a 34 basis point increase in Ms. Phipps's recommendation from direct to rebuttal testimony, Staff's recommendation in particular remains extremely low, representing an outlier position that should be excluded altogether from consideration. (*See* Ameren Ex. 20.0,

p. 3.)

As the forgoing arguments will demonstrate, the Company's request is consistent with applicable case law and adherence to the parameters set forth in recent Commission Orders. Specifically, the Company's arguments, based upon the evidence admitted into the record, will establish the following:

- A rising interest rate environment needs to be considered in establishing an ROE that will enable AIC to effectively compete for capital as it expands its gas delivery system;
- Mr. Hevert's DCF and CAPM analytics provide a sound and supported evidentiary basis upon which the Commission should rely;
- Staff and IIEC recommendations produce a return on equity that is artificially low using methodologies that are not supported by record evidence in this proceeding;
- Specifically, Staff and IIEC used very low growth rate assumptions in their DCF models that are not sustainable by record evidence; and
- Staff erred in the calculation of its CAPM by excluding non-dividend paying companies from the overall market rate of return used in its model.

Accordingly, AIC's recommendation presents a reasonable return on equity recommendation that, if approved, will support important investment in the gas delivery infrastructure AIC uses to deliver gas to retail customers in the state of Illinois.

The Company observes that the major areas of distinction between the Staff and IIEC and the Company with regard to the return on equity, are as follows:

- How to properly account for the rate of growth in a DCF model generally;
- The correct long term rate of growth to be used in the critical third stage of a multi-stage DCF;
- With regard to the CAPM, whether historical spot price or multi-day average treasury rates should be used;
- With regard to the CAPM, how to properly calculate the overall market rate of return and resulting market risk premium; and

- With regard to the CAPM, the potential impact of "non-synchronous trading" on the interval used to determine the beta coefficient.

Disputes of lesser significance overall include the following items: use of historic spot prices vs. historical averages in models generally; the proper time horizon over which betas are measured; expectations with regard to the import of dividend payout expectations used in DCF result; use of the previously rejected "b and r" approach to calculating growth rates in a DCF; and, finally, how to measure flotation costs.

With these matters in mind, the sections that follow set forth AIC's position and supporting arguments with recourse to record facts that sustain those arguments. In terms of organization, important precedent is first analyzed and explained, next AIC's approach is described, and finally an informed critique of Staff and IIEC positions is provided.

Applicable Law and Relevant Authority.

There are essentially two categories of authority instructive to the Commission with regard to the establishment of a return on equity and overall cost of capital: (1) Constitutional requirements and parameters, and (2) recent Commission rate decisions.

Constitutional Parameters.

The first category of authority concerns constitutional standards that require the Commission to include set rates inclusive of an adequate return on capital investment so as not to interfere with a utility's Fourteenth Amendment and protection against confiscatory ratemaking. There are two seminal cases that embody this protection: *Bluefield Waterworks and Improvement Co. v. Pub. Svc. Comm'n. of West Virginia*, 262 U.S. 679 (1923) and *Fed. Power Comm'n. et al. v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

In *Bluefield*, the Court provides a broad overview of the rights applicable to a rate setting proceeding, and with regard to return on investment, maintains as follows:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding, risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

262 U.S. 679 at 692-93.

The Court further articulated this holding in *Hope*, holding that investors have a reasonable expectation of the opportunity to earn a fair return:

...the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock.

320 U.S. 591 at 603.

In *Hope*, the Court also holds that standard applicable to establishing the cost of investment as follows:

"...[T]he return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Id.

In both *Bluefield* and *Hope*, the Court has articulated the requirement that investor expectations informed by past experience, and cognizant of returns on investments in other

enterprises of corresponding risk is the standard or measure of the cost of capital, including equity capital.

Bluefield and *Hope* together provide the legal framework that guides analytics required in order to adjudicate a fair return on equity that both supports investor expectations and investment and also presents a range that is not so high as to be speculative and unreasonable. From the above quoted holdings, five principle requirements are notable of both cases with regard to what the proper measurement of equity should include:

- (1) Investor are entitled to a fair return opportunity on capital employed to provide public utility service (*Bluefield*);
- (2) The return permitted should be consistent with investments in businesses with corresponding risks (*Bluefield*);
- (3) An expected return is dependent upon market and financial conditions that are subject to change from time to time (*Bluefield*);
- (4) The return should be supportive of financial integrity and supportive of the Company's credit and access to capital (*Bluefield*; *Hope*); and
- (5) the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks (*Hope*).

Discussion of Recent Commission Orders.

The second category of relevant authority is the Commission's own jurisprudence as set forth in recent Commission decisions. While these decisions do not provide precedent or control the decision in this case, they are informative as to how the Commission effectuates the requisite constitutional standards set forth above.

The three most recent cases that bear relevance to the case at bar include: the Commission's last gas rate order for Ameren Illinois Company, *Ameren Ill. Co.*, Docket 11-0282, Order (Jan. 10, 2013), the Commission's Order in *Illinois-American Water Co.*, Docket 11-0767 (Sept. 12, 2012) (IAWC), and the Commission's most recent Order issued in the *N. Shore Gas*

Co. et al., Dockets 12-0511/12-0512 (cons.), Order (June 18, 2013) (People's/NS). In all three examples, the Commission has relied upon results from expert witness testimony derived from both the use of DCF and CAPM models to establish an ROE to be used in setting rates.

In doing so, the Commission resolved the contested ROE in the following manner:

Docket No.	Date of Order	Page No. Reference	Unadjusted ROE*
11-0282 – Ameren Illinois Company (Gas)	Jan. 10, 2012	p. 127	9.22%*
11-0767 - Illinois American Water Company	Sept. 12, 2012	p. 112	9.34%
12-0511/12-0522 – Peoples/NS (Gas)	June 18, 2013	p. 208	9.33%*

* ROE's presented above are before basis point reductions applied after DCF and CAPM results were averaged. No party to this proceeding has proposed incremental basis point additions or reductions.

By relying upon both DCF and CAPM as applied to a list of proxy companies of comparable utility operations, the Commission addresses the requirements articulated in *Bluefield* and *Hope*.

A discounted cash flow model essentially provides a net present value expressed in terms of a percentage derived from the market price and stream of future expected dividends. Essentially, the calculation is dependent upon establishing a starting price for equity investment, the rate of dividends, and expected growth rates of the stock's value. (*See Ameren Ex. 5.0*, pp. 14-15.) Thus, when correctly calculated using the appropriate market derived data and using a list of *comparable* utility operations, many of the *Bluefield* requirements are in theory satisfied, those being items 1-4 identified above.

However, it is unclear whether the DCF in fact incorporates an analytical embodiment of the 5th requirement, established by *Hope*, which requires that investment return be commensurate with investments in *other enterprises* of corresponding risk. The CAPM certainly would fit the

bill provided the calculation is done correctly, because the CAPM essentially approximates the value the investor places on the risk taken given two fundamental guideposts of investment, an assumed risk free investment and the overall market rate of return. (See Ameren Ex. 5.0, pp. 20-22.) The relationship between those two guideposts is established through the calculation of what is referred to as a *beta coefficient*. The CAPM in theory is an adept risk plus premium model that is proficient at measuring investor expectations in the context of the market as a whole and from the basis of a portfolio or diversified investor perspective. (See ICC Staff Ex. 5.0R, p. 25.) In this manner, the CAPM does take into consideration investors' consideration of returns in other enterprises and the relative risk of an investment in the subject utility as compared to the market as a whole. Thus, the use of the CAPM results facilitates both the earlier standards identified in the *Bluefield* decision and also the more articulated requirements established in *Hope*. Accordingly, the Commission's reliance upon both a CAPM and DCF result is appropriate because the requirements both provide a perspective consistent with the *Bluefield* requirements and also incorporate the concept of commensurate returns to *other enterprises* of a corresponding risk.

The Company does note that the mix of DCF and CAPM results and the function of the models and inputs vary in recent Commission orders. In both the 11-0282 Docket and the IAWC dockets the Commission employed some selectivity in the results among the parties it chose to include in an averaging convention. Specifically, in IAWC, the Commission chose a single DCF and single CAPM result from two parties to come to its conclusion. *Illinois-American Water Co.*, Docket 11-0767, Order, p. 112. In the 11-0282 Docket, the Commission averaged all party DCF results, but chose only a single party's CAPM result. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 127. In contrast, the Commission in the Peoples/NS Docket averaged the DFC and CAPM

results of both parties addressing ROE to derive a result. *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, p. 206-07.

In all three dockets cited above the Commission did not use any single party's overall recommendation in the formulation of its final order, but rather used some form of multi-party average in arriving at its final decision.

Due to the recent timing of the decision issued in the Peoples Gas/NS Docket, some specific discussion of that case is warranted. In the most recent Commission Order for a gas utility, the Commission derived an ROE using a multi-party average in the manner shown below:

ROE Approved: Docket 12-0511/12-0512 (pp. 205-207 of Final Order).

Party	DCF	CAPM
Staff	9.32%	8.99%
Peoples/NS	8.98%	10.04%
Average	9.15%	9.51%
Commission Authorized Average of DCF and CAPM	DCF and CAPM 9.33%	

Essentially, the Commission used an "all-in average" taking the average of the Staff and utility DCF and combining that with the average of Staff and utility CAPM results and dividing by two. Given that this docket represents a recent gas utility outcome, the Company recognizes its potential import. If the Commission were to use that methodology in this case, the resulting ROE would equal 9.5%. The following table shows the Peoples/NS calculation as applied to record facts in this docket with respect to Staff and the Company:

12-0511/12-0512 Average as Applied to Staff and AIC Positions of Record.

Party	DCF	CAPM
Staff (Staff Ex. 14.0, p. 9)	8.6%	9.02%
AIC (Ameren Ex. 34.0, pp. 56-58)	9.68%	10.70%
Average	9.14%	9.86%
Average as between Staff and Company DCF/CAPM	DCF and CAPM 9.5	

There are a few other noteworthy aspects of the recent Commission order instructive to issue of ROE in this case. First, the Commission in the Peoples Gas/NS Docket recognized as a valid benchmark a calculation of an industry average authorized ROE of 9.94% for gas utilities. *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.) Order, p. 205. AIC has independently reviewed and validated that average as a benchmark in this docket. (See Ameren Ex. 20.0, p. 8 (Mr. Hevert calculated the average to be 9.96%.).) Second, the People's Gas/NS Docket cautioned against the use of leverage adjustments in calculating DCF and CAPM results. This finding is of no consequence to this case and, as no witness presented testimony supporting such leverage adjustments to DCF or CAPM analytics. *N. Shore Gas Co. et al.*, Dockets 12-0511/12-0512 (cons.), Order, p. 208. Finally both the 11-0282 Ameren Illinois Docket and Peoples Gas/NS Docket included basis point reductions to the return on equity recommendation. *Id.*; *Ameren Ill. Co.*, Docket 11-0282, Order (Jan. 10, 2013), p. 127. Such reductions are of no application to this case, as no party has proposed any such reductions or adders to final ROE recommendations.

In light of the approved returns and methodologies used in recent Commission Orders as discussed above, the recommendations of Staff and IIEC are demonstrably too low and should not be approved. Additionally, because the Company must compete for capital, the low recommendations of Staff and IIEC cannot satisfy the *Bluefield* and *Hope* requirements. In the sections that follow, the Company will explain in brief first the reasons why Mr. Hevert's analytics are supportable in light of the *Bluefield* and *Hope* requirements, while also being consistent with prior Commission decisions.

Ameren Illinois Company Position and the Testimony of Mr. Robert Hevert.

Mr. Hevert presented testimony in this proceeding that included both DCF and CAPM approaches reflective of the preferences expressed by the Commission in AIC's last gas rate case

in Docket 11-0282. (Ameren Ex. 5.0, p. 3-4.) Mr. Hevert employees these models as applied to a group of proxy companies consisting of comparable gas utility operations. (*Id.*, p. 11.) All three parties use the same proxy group, with the exception of the exclusions of one company as noted by Ms. Phipps in her rebuttal testimony. (ICC Staff Ex. 14.0, p. 3; IIEC Ex. 1.0, p. 15.) Using these models and also examining the results of a bond yield plus risk premium, Mr. Hevert concluded that investors expect a return on equity within the range of 10.0 and 10.75%. (Ameren Ex. 34.0 (Rev.), p. 58.) Taking into consideration the regulatory environment in which AIC operations, weather variability, and flotation costs associated with the issuance of equity, Mr. Hevert recommends a return on equity of 10.4%. (*Id.*) Mr. Hevert did re-run his analysis at each testimonial phase of the case to ensure the information provided to the Commission remained accurate and in order to respond the arguments of Staff and IIEC. Nonetheless, the recommended range and specific recommendation applicable to AIC remained unchanged throughout the proceeding. (Ameren Exs. 5.0, p. 59; 20.0, p. 63; 34.0 (Rev.), p. 58.)

The Company's Proposed DCF Analysis.

As Mr. Hevert explains, the DCF approach posits that a stock's price is representative of the present value of its expected future cash-flows, which includes the dividend yield and the rate of growth attributable to the security. (Ameren Ex. 5.0, p. 14.) The model assumes that the investor's expected return is the sum of the dividend yield and the increase in the stock price. (*Id.*) Mr. Hevert relies upon a form of the DCF methodology referred to as the multi-stage DCF. (*Id.*, p. 14.) The multi-state DCF is also referred to as a non-constant DCF (NCDCF) to differentiate from the constant growth DCF. A constant growth DCF, as its name implies, assumes constant unchanging growth as a component of the return an investor expects. (Tr. 568.) The Commission used a multi-stage DCF approach in arriving at its ROE in the last Ameren Illinois Rate case order issued in Docket 11-0282. (Ameren Ex. 5.0, p. 17.)

With a three-stage model, the DCF result essentially begins with currently applicable growth rates derived from proxy company analytics, based upon earnings per share growth rates of proxy company securities. Then anticipated changes in the growth rate are modeled to reflect a regression of the growth rate from actual current experience to a long-term growth rate. (*Id.*, p. 16.)

Mr. Hevert established by an examination of the long-term economic real growth of 3.24% from an examination of data from 1929 to 2011. (*Id.*, p. 19.) Mr. Hevert then adds anticipated inflation beginning in 2023 (the beginning of the third phase). (*Id.*) The anticipated inflation is calculated based upon the spread between long term nominal treasury securities and the long term inflation protected securities, also known as the "TIPS" Spread. (*Id.*) In essence, the third stage growth rate builds into the pricing of equity an assumption that over time the Company's growth will regress toward correlation with overall mean economic growth experienced. (*Id.*)

The middle or second phase is essentially a bridge between the near term or first stage and the long-term third stage. (*See Ameren Ex. 5.0, p. 18, Table 5.*) The benefit of using a multi-stage DCF is the long-term perspective of the investor is better captured. As Ms. Phipps agreed at hearing, equity securities are considered by investors to be long-term investments. (Tr. 560-61.) Thus, a multi-stage DCF has the benefit of a long-term perspective that incorporates expected changes in economic conditions. Such a perspective differs significantly from one that would assume investors formulate their expectations believing that current estimates of growth would continue indefinitely forever. (*See Ameren Ex. 5.0, p. 17-18.*)

Given that investors view equity securities as long-term investments, it makes sense that investors would consider current growth rates are subject to change. Ms. Phipps agreed at hearing that the investors formulate expectations in part by examining historical experience.

(Tr. 560.) In fact, at hearing Ms. Phipps agreed that macro-economic events, such as recessions, impact economic growth rates, in pertinent part, Ms. Phipps testified as follows:

Q. Okay. So if the growth rate today is affected by recessionary conditions, macroeconomic conditions change in the future, could a growth rate possibly become unsustainable in the future?

A. Yes. That's possible.

(Tr. 575.)

Mr. Hevert's analysis addresses the salient point that investors recognize the economy and growth rates change over time. In his multi-stage DCF analysis, Mr. Hevert's incorporates the use of a nominal long-term growth expectation of 5.61% recognizing that investors will consider both contemporary growth experience and future tendency for growth to correlate to overall economic growth in formulating expectations, and the market's expectations of future inflation. (Ameren Ex. 34.0 (Rev.), p. 55.) Mr. Hevert's reliance upon a multi-stage DCF to model the progression in growth rates from current experience to long term expectations is derived from proxy companies comparable to Ameren Illinois and historical experience that shapes investors long term market expectations. (*See* Ameren Exs. 5.0, pp. 16-17; 34.0 (Rev), p. 55.)

Ms. Phipps criticizes Mr. Hevert for the use of 30, 90, and 180-day average prices for the proxy company securities because such prices she contends are effected by information that is no longer relevant to investors. (ICC Staff Ex. 14.0, p. 18.) First, this statement does not make logical sense, because Ms. Phipps herself also uses historical prices, single historic dates, to formulate her opinion. (Tr. 560.) Second, as previously noted, Ms. Phipps agreed at hearing that investors take into consideration past experience and history when formulating expectations. (Tr. 560.) As Mr. Hevert responds in pertinent part: "Stock prices tend to fluctuate from day to day based upon changes not only in investors' assessment of fundamental factors such earnings

growth rates and projected interest rates must also due to anomalous events that may affect stock prices on any given trading day." (Ameren Ex. 20.0, p. 12.) The Commission itself has expressed concerns over the use of spot prices because such prices are subject to volatility. (*Id.*, p. 14); *Ameren Ill. Co.*, Docket 11-0282, Order, p. 123.

As Mr. Hevert notes, Ms. Phipps did also prepare a multi-stage DCF analysis in the proceeding, but she ignored the results of that analytical model in her recommendation. (Ameren Ex. 20.0, p. 16.) Instead, Ms. Phipps claims that her constant growth rates used in the constant growth DCF are "reasonably sustainable," and thus she didn't need to rely upon the multi-stage DCF results. (Ameren Ex. 20.0, pp. 15-16.) First, for the reasons stated above, the constant growth model lacks the long-term perspective of investors in contrast to the multi-stage DCF. With regard to the disregarded multi-stage analysis, Ms. Phipps used a long term growth rate is 4.60%, which is significantly below the long term average growth rate demonstrable in market history, and further it is actually less than that used in her first stage. (*Id.*, p. 19-20; Tr. 576.) The result is downward progressing rate of growth into the future that leads to the disregarded result that Ms. Phipps calculated to be 8.28% in her Rebuttal Testimony. (ICC Staff Ex. 14.0, p. 5.)

Ms. Phipps' calculation is the product of a multi-variable average that includes current projections of GDP (2.4-2.5%) plus inflation and the sum is then averaged with a long-term growth expectation of 4.60 percent. (*Id.*, p. 4.) Mr. Hevert's testimony establishes that Ms. Phipps' resulting growth rate is simply inconsistent with historical growth rates actually experienced in the United States between 1929 and 2012. (Ameren Ex. 20.0, p. 19-22.) By looking at 10-year periods, Mr. Hevert determined that Ms. Phipps 4.60 percent growth rate has been exceeded in 68 of 74 periods. (*Id.*) In other words, Ms. Phipps used a very rare growth rate

in the modern history of the United States economy. In rebuttal testimony, Mr. Hevert noted that by changing the growth rate to 5.70%, the growth rate that Mr. Hevert uses to formulate his opinion in direct testimony, the expected cost of equity rises from the 8.36% Ms. Phipps proposed in direct testimony by almost 100 basis points to 9.23%. (Ameren Ex. 20.0, p. 22.)

In surrebuttal testimony, Mr. Hevert takes the analysis one step further and points out that Ms. Phipps' calculation relies upon a mixture of long term real GDP projections and also a historical spot-price (July 23, 2013) based estimate of future inflation for the period 2023-2043. The reliance upon spot prices plus future estimates simply lacks support. (See Ameren Ex. 34.0, p. 10.) Mr. Hevert also explains that Ms. Phipps' long-term growth rate used in her discarded Multi-stage DCF is inconsistent with her reliance upon the use of a long-term treasury rate as her risk free rate of return. (*Id.*) As Mr. Hevert points out, Ms. Phipps indeed agrees that "both the real GDP growth and the real risk-free rate of return should be similar", yet Ms. Phipps nonetheless relies upon a 4.60 long term growth estimate despite a 30-year treasury being projected to be 5.60 percent in the third-stage period as based upon Blue Chip Financial Forecasts. (*Id.*, pp. 10-11.) Given that Ms. Phipps agrees that rates of long-term U.S. treasury bonds of return is assumed by investors as a proxy for a risk free rate, her use of a 4.6% long-term growth rate is inconsistent and unsupported. (See Tr. 581-82.)

With further regard to Ms. Phipps' DCF calculations, Mr. Hevert also notes that the use of spot prices, as discussed above, introduces the uncertainty of the stock market volatility into the validity of the analysis casting further doubt as to the appropriateness of her analysis (Ameren Ex. 20.0, pp. 25-26.)

In general, Mr. Gorman lodges the same or similar criticisms as those expressed by Ms. Phipps. The most significant and noteworthy of the differences between Mr. Hevert and Mr.

Gorman DCF concerns the calculation of growth rates. Mr. Hevert explains that while Mr. Gorman relies upon a "sustainable growth model" that incorporates what is referred to a "b times r" approach to growth calculation, the Commission has expressly rejected this calculation in the past. (*Id.*, pp. 44-45.) Additionally, similar to Ms. Phipps, Mr. Gorman solely relies upon a very low growth rate of 4.9 percent using Blue Chip projected GDP. As Mr. Hevert notes, the end date of the Blue Chip projections are the very start of the third-stage of his DCF, thus giving rise to a mismatch of data by time period. (*Id.*, pp. 45-46.)

In contrast to Mr. Hevert's analysis, Mr. Gorman's low growth rate supported by out-of-period projections is simply unsupported in light of historic growth experienced in the U.S. (*See Ameren Ex. 20.0*, pp. 46-47.) Mr. Gorman simply fails to show why his approach is superior to Mr. Hevert's when he (1) relies upon a multi-stage DCF results that include methodologies have been rejected by the Commission and (2) uses a third-stage that relies GDP projections that do not correspond with the third-stage period and are entirely inconsistent with the totality of historical U.S. growth experience.

Based upon a review of the evidence, Mr. Hevert's analysis is well supported and articulately reasoned. At the time of surrebuttal testimony, using the most current and available data, Mr. Hevert populated a table with 19 iterations of his DCF calculation, containing a low of 9.12%, a high of 10.22%, and an average mean result of 9.68%. (*Ameren Ex. 34.0 (Rev.)*, p. 56, Table 3.) At the time of surrebuttal testimony, Mr. Hevert utilized a 5.61% long-term growth rate in his analysis, which was lower than the 5.7% used on rebuttal. (*Id.*, p. 55.)

The Company's CAPM Results.

While the DCF does a good job of deducing the expectations a prospective investor might have specific to AIC or a comparable gas utility, the DCF focuses solely on the type of security being considered. In other words, it does not directly reflect the broader portfolio perspective

that investors taken into account when making investment choices. The CAPM risk premium model measures risk relative to a portfolio of diversified investments. (See ICC Staff Ex. 5.0R, p. 25.) A CAPM model has three principle components, the assumed risk free rate or return, the overall market return, and the beta coefficient. The risk premium over the risk free rate is measured against the overall market return based upon the calculation of a *beta coefficient*. (See Ameren Ex. 5.0, p. 20-24.) The concept embodied in the CAPM is that an investor will frame expectations as to the return of an equity based upon where that investor places the risk on the continuum that exists along a line that includes two relative guideposts, the risk free rate of return and the overall portfolio or market rate of return. (See *generally id.*) The CAPM analysis performed by Mr. Hevert uses supported methods and inputs as to all three key components of the CAPM calculation.

First, to calculate his CAPM model results, Mr. Hevert uses both historic and prospective information including a 30-day average of the 30-year U.S. treasury yield and a consensus forecast of the average 30-year treasury yield for the coming six quarters. (*Id.*, p. 23.) Thus, Mr. Hevert's analysis balances both market observation and consensus expectations for the near future. By doing so, Mr. Hevert's analysis proficiently captures the sentiments of investors given the current state of rising interest rates. Second, Mr. Hevert's calculation of the expected overall return cannot be faulted as it captures a total market expected return using a constant growth DCF model to calculate a market average ROE. (*Id.*, p. 23.) From Mr. Hevert's total market expected return he subtracted the risk free rate to derive an *ex-ante* market risk premium. (*Id.*) The results of his analysis are presented in Ameren Exhibit 5.2 to Mr. Hevert's direct testimony. (Ameren Ex. 5.0, pp. 23-24.) In other words, Mr. Hevert derives a market risk premium from the investor's prospective viewpoint that considers the current expected return assuming constant

growth on the total market.

To calculate his beta coefficients, Mr. Hevert utilized reported beta coefficients from Bloomberg and Value Line for each of the proxy group companies. (*Id.*, p. 25.) Raw betas for the proxy group companies were calculated using weekly returns over an 18-month period ending November 30, 2012. The resulting average beta coefficient for the proxy group was 0.789. (*Id.*, p. 26.) Given that academic research demonstrates that betas can regress higher closer to 1.0, Mr. Hevert presented results for his raw and adjusted beta coefficients. (*Id.*, p. 27.)

Mr. Hevert and Ms. Phipps agree as to the construction of the CAPM model, with an applied risk premium derived from a beta calculation to a risk free rate. (Ameren Ex. 20.0, p. 27.) Both witnesses are also in agreement that the overall market risk premium should be prospective (*ex-ante*) and not historical (*ex-post*). The major areas of disagreement between Mr. Hevert and Ms. Phipps are with respect to the use of a "spot" yield to establish a risk-free rate and also her calculation of the overall market return. In the past the Commission has criticized the use of a spot yield or rate as problematic and unfair to the applicant. (*Id.*, p. 28.)

With regard to the application of the beta coefficient, Mr. Hevert's approach of taking a more current view of investor's perspectives by using an 18-month beta coefficient is superior to Ms. Phipps' use of five years of historic data. (*Id.*, p. 30.) Indeed, both parties agree the model should be applied on with a forward ex-ante view rather than backward looking approach. (*See id.*, p. 31.)

Ms. Phipps also criticizes Mr. Hevert concerning the inclusion of dividend paying companies for the purpose of calculating the overall market return. (*Id.*, p. 32.) However Ms. Phipps' criticism is unfounded as investors do view investments in the context of the entire market; dividend paying and non-dividend paying investments alike. (*Id.*) The exclusion of

dividend paying utilities in her CAPM model is actually a fatal error in Ms. Phipps' calculation as discussed more thoroughly in the Company's critique of Staff's approach below.

Finally, Ms. Phipps alleges that Mr. Hevert's beta coefficients are faulty because he uses weekly rather than monthly betas. Based upon two obscure articles from the 1980's, Mr. Phipps alleges that weekly beta coefficients are subject to the effects of "non-synchronous trading." (Ameren Ex. 34.0 (Rev.), p. 20-21.) Mr. Hevert conducted an empirical test in response to Ms. Phipps' claim and found his betas were not faulty or subject to "non-synchronous trading" or interval bias. (*Id.*, pp. 21-25.)

With regard to the criticisms of IIEC, Mr. Gorman himself does not rely upon the results of a CAPM as he believes they do not provide a fair and accurate estimate of the Company's cost of equity. (Ameren Ex. 20.0, p. 48.) The Company agrees with Mr. Gorman's assessment of his CAPM results. (*Id.*) Mr. Gorman nonetheless proceeds to criticize Mr. Hevert's CAPM as juxtaposed to his admittedly unfair and inaccurate CAPM results. Primarily, Mr. Gorman criticizes the Mr. Hevert's total market DCF growth rate as being "too high." (*Id.*, p. 48-50.) Mr. Gorman then claims that the total Market return should be 9.90%. (*Id.*, p. 49.) However, such a return is entirely inconsistent with historical experience. Mr. Hevert prepared extensive analysis showing a return at or near 13% is not uncommon given historical experience that Mr. Gorman himself considers relevant. (*Id.*, p. 50-53.) Finally, it should be noted that the 9.9% is well below the forward-looking estimates that both Ms. Phipps and Mr. Hevert rely upon. (*Id.*, p. 53.)

Mr. Gorman also criticizes the use of 18-month beta coefficients, himself arguing for a longer period of measurement. (*Id.*, at 54.) A longer term may at first glance be thought to contain more data from a statistical standpoint, but that is not true with regard to Mr. Hevert's 18-

month beta coefficients. (*Id.*, p. 55.) Mr. Hevert explains that his beta calculation relies on a sufficient number of observations to support a current and well supported analysis, and he further explained that to ensure validity, he prepared a regression analysis indeed affirms his analytical approach. (*Id.*)

Thus, Mr. Hevert thoroughly supports the calculation of his CAPM results and provided 12 iterations of his CAPM risk premium model calculations. At the time of surrebuttal testimony, Mr. Hevert calculated his risk premium model results using an updated treasury rate of both 3.59% and 3.73% and a market weighted DCF of 13.00%. (Ameren Exs. 34.0 (Rev.), p. 57-58; 34.2.) His final results indicated CAPM results ranging from a low of 9.94% to a high of 11.23%, with a mean average CAPM result of 10.7%.

Concerns with the Analysis Performed by Staff and IIEC ROE Witnesses.

As noted above in the discussion of applicable and relevant authority with regard to the calculation of the return on equity, the Commission in the past has relied upon both DCF and CAPM results. As Mr. Hevert points out, the choice of model is not in and of itself the critical point in determining if the *Bluefield* and *Hope* decisions are given due accord, but rather it is the results the models produce. (Ameren Ex. 5.0, p. 13.) To the extent the models themselves are altered, populated, or adjusted inappropriately to produce deficient results, the models should not be relied upon. Both Staff and IIEC have augmented or populated their models in a manner that produces a deficiently low ROE results. These results are so low as to present a fundamental challenge to the endeavor of measuring reasonable investor expectations and supporting the financial integrity and credit quality of AIC.

The Analysis Performed by Staff.

Staff witness Ms. Phipps calculated a DCF recommendation and a CAPM recommendation, and averaged the two to support her recommendation of 8.81%. (ICC Staff Ex.

14.0, p. 9.) However, certain aspects of her DCF and CAPM analysis lack sufficient record support to sustain their use in the Commission's ultimate determination in this proceeding.

Staff's Constant Growth and Non-Constant DCF Results.

Ms. Phipps' DCF analysis suffers from a narrow perspective. As offered in this case, she uses a constant growth DCF and assumes constant unchanging growth based upon current observable proxy company growth rates. (Tr. 568.) Yet, she also readily agrees that equity investors have a long-term perspective, and also consider historical experience in making investment decisions. (Tr. 560-61.) These views are irreconcilable. The failure to embody long-term expectations in her recommendation leaves her analysis short-sighted and inconsistent with full measure of the expectations of equity investors. Given that current growth rates experienced are below the historical mean average growth rates Mr. Hevert identifies, a constant growth DCF fails to capture a return to historic normal market operation over time; a return to growth that investors who are informed by history and experience would fully expect. (*See* Ameren Ex. 5.0, p. 19; Tr. 560.) While she testified that she believes her growth rates in her DCF are "reasonably sustainable" she fails to support this conclusion in a manner that supports the inclusion of her analysis in the Commission's final decision.

At hearing, Ms. Phipps fully acknowledged that the country has recently experienced a recession, and that growth rates can be affected by macro-economic conditions, including a recession. (Tr. 570.) Therefore, by using a non-constant DCF inclusive of market observed growth rates that are low introduces the problem that Ms. Phipps has captured recessionary conditions and locked them forever in her assessment of the investors expected return. Ms. Phipps further agrees that to the extent the economy improves and growth rates increase, growth rates that today are sustainable, may in the future become unsustainable. (Tr. 575.) Ms. Phipps

simply does not support how her constant growth model presents an analysis that incorporates a sustainable expected growth that investors would assume when making investment choices going forward.

Ms. Phipps did prepare a multi-stage DCF, or as she refers to it, a "non-constant" DCF analysis, but discarded that analysis because of its incredibly low output of 8.28% (as calculated in her rebuttal testimony). (ICC Staff Ex. 14.0, p. 4.) However, Ms. Phipps should not have discarded the multi-stage DCF as analytical perspective, rather she should have examined the assumptions and inputs in the model that created the dismal result. If she had done so, she would have come to recognize that her model suffered because of her errant third stage long-term growth rate.

There is really no explanation in the record sufficient to explain why Ms. Phipps assumes such a negative perspective on long term economic growth in United States, a perspective that would posit that growth will be lower than what natural gas utilities today are experiencing in the wake of a prolonged recession. Ms. Phipps cites the source of her calculation as the product of a sum and averaging approach using real GDP, a spot yield treasury based "TIPS Spread," an EIA and Global Insight forecast of GDP of 4.3%. (ICC Staff Ex. 5.0R, p. 23.) Thus, she calculated a 4.9% growth rate and then lowered it by averaging with an analyst projected GDP number. As Mr. Hevert points out, the assumed risk free rate of return is 5.6% which would embody current investor expectations concerning real GDP or economic growth as increased by inflation. (Ameren Ex. 20.0, p. 22.) Thus, a significant disparity exists between Ms. Phipps' view and forward-looking expectations. Indeed, Ms. Phipps at hearing readily agreed, and further agreed that long term treasury rates include no default risk but rather expectations concerning growth and inflation. (Tr. 581.) Ms. Phipps testified as follows:

Q. Okay. Do you believe -- does the -- do long term treasury rates include a risk premium associated with the possibility of default by the United States government?

A. No.

Q. And in your preparing your CAPM¹⁴ don't you assume that the 30 years treasury rate is a risk free rate? Is that correct?

A. Yes.

Q. Should risk free rate of return be commensurate with long term expectations regarding economic growth plus inflation?

A. Can you repeat that question, please?

Q. Should the risk free rate of return be commensurate with long term expectations regarding economic growth plus inflation?

A. Well, it should be commensurate with the real growth rate, real economic growth rate, and inflation.

(Tr. 581-82.)

Additionally, Ms. Phipps direct testimony she made the salient point herself in pre-filed direct testimony, articulating "...both the real GDP real and the real risk-free rate of return should be similar since both are a function of production opportunities and consumption preferences without the effects of a risk premium or an inflation premium." Nonetheless, Ms. Phipps dismissed the argument as "nonsensical" saying that there is no point in using treasury rates as a proxy when GDP forecasts are available. (ICC Staff Ex. 14.0, p. 22.)

It is apparent that a critical discrepancy between her analysis and the record evidence. Gross Domestic Product is one measure of economic growth based upon *production*, and going forward what analysts believe will be included in GDP in 2023 is unclear from the record. As the assumed "risk free rate", anticipated treasury rates arguably embody a broader sentiment of

¹⁴ Correction to transcript requested.

economic growth and opportunity cost.

As Ms. Phipps admitted at hearing, she herself does not know what is included in GDP. (Tr. 582-83.) Ms. Phipps did acknowledge that the service sector of the U.S. economy is not included in the calculation of GDP. (*Id.*) Further, she indicated she did not know if intellectual property was included in GDP. (*Id.*) Given that the third stage DCF begins in 2023, a measure of growth that excludes services and also possibly excludes intellectual property cannot be sustained as a forward-looking measure of economic growth expectations in the minds of investors. If we are to accept Ms. Phipps' growth rates, we must also accept the possibility that future economic growth in the U.S. will not include services and intellectual property. The disparity between the expected value of GDP projections and long term treasury rates may well be due to what is included in GDP today as calculated and what may be considered part of economic growth in the future. Ms. Phipps agreed at hearing she was unaware if any changes in the calculation of GDP were being considered. (Tr. 582-83.)

Contrary to being a "nonsensical" method, Staff itself has used long-term treasury rates as a long-term growth rate in a three stage DCF. Staff witness Ms. Freetley used a long-term treasury rate in her multi-stage DCF in Docket 09-0306 (cons.), which was a consolidated gas and electric rate case filed by the then Ameren Illinois Utilities. *See Ameren Ill. Co., Dockets 09-0306 (cons.)*, Order, p. 176 (Apr. 29, 2010) (the Commission notes Staff's use of a 20-year treasury rate for a third stage growth rate).

Compounding the inaccuracy created by the use of artificially low rates of growth, Ms. Phipps also relies heavily on spot prices as inputs for her DCF analyses. (*See* Tr. 568-69.) In her constant and multi-stage DCF, Ms. Phipps uses as a starting point a single day closing spot price, July 23, 2013, as the basis of her recommendation. In her multi-stage DCF, she uses that date

and also uses spot treasury rates to calculate her third stage long-term growth rate, as applied through her novel sum/average approach described above. Her multi-stage analysis is therefore heavily influenced by the use of a treasury rate spot price used to calculate expected future inflation, in addition to starting from the single day stock prices for her proxy group. Ms. Phipps defends the use of spot prices in her analysis based on her inference that multi-day average prices as used by Mr. Hevert and Gorman are historic and therefore irrelevant. (*See Ameren Ex. 20.15 (Response to AIC-Staff 2.09).*) At hearing, Ms. Phipps acknowledges that July 23, 2013 is also a historic date. (Tr. 569-70.) Thus, both Mr. Hevert and Ms. Phipps use historic data to formulate their measure of investor expectations. The difference is that Mr. Hevert takes the much more likely informed perspective of an investor that would be aware of more than a single day in summer of 2013 when they make an investment decisions.

The purpose of their respective analysis is to measure the expectations of investors for the purpose of setting rates going forward. The purpose is not to determine what the expectations of a theoretical investor that calculated a single day DCF on the evening of July 23, 2013. It is simply illogical to surmise that investors would consider the single day price of a security but not consider a 30, 60, or 90-day time-horizon as they make investment choices.

With regard to Ms. Phipps CAPM model, problems affect all three critical components of that model, including the spot treasury yield she uses, her beta coefficient, and most significant and truly fatal to her analysis, is her errant calculation of the overall market return derived risk premium that is essential to the model's proper function.

As she did with her DCF analysis, Ms. Phipps uses a spot price, this time a single day treasury yield to establish her risk free rate of return. (Tr. 569.) Again, it is not logical that an investor would take into consideration of single day price when making an investment choice.

Relative to the assumed risk free rate of return, an informed investor will be cognizant of both the current treasury yield as well as recent trends and forward looking expectations. (*See* Ameren Ex. 20.0, p. 27-28.)

Second, with regard to her betas, Ms. Phipps uses a measurement period that basically starts with the collapse of Lehman Brothers, includes the subprime mortgage meltdown and market crises, the federal reserves "quantitative easing" program, and a recession. (Tr. p. 584-86; 571:4-8.) Therefore her calculation of risk betas includes market economics strongly affected by volatile conditions and thus produces an unreliable measure of the relationship of the risk facing the proxy companies relative to the market as a whole going forward.

Most significant however is that Ms. Phipps CAPM intentionally excludes non-dividend paying companies from the overall expected market return. As noted previously, the benefit of the CAPM is to establish a rate of return that is commensurate with expectations in other enterprises of similar risk; that risk is measured relative to the market as a whole. Investors have choices, and those choices include non-dividend paying stocks. (Ameren Ex. 20.0, p. 32.) At hearing, during cross-examination Ms. Phipps readily agreed, testifying as follows:

Q. Now, with regard to -- from an investor standpoint I'll ask you this. Do you understand what is meant by the term portfolio diversification?

A. Yes.

Q. And do diversified investors hold various securities in what's called a portfolio of investments?

A. Yes.

Q. And do investors have choices in regard to the securities they choose to include in diversified portfolio?

A. Yes.

Q. Can diversified investors purchase both non-dividend paying equities and dividend paying equities and include them both in their portfolio?

A. Yes.

(Tr. 583-84.)

If the fundamental purpose of a CAPM model is to provide a risk premium over the risk free rate by measuring investor requirements relative to the market as a whole, Ms. Phipps has turned the CAPM on its head, and excluded a vast number of investment alternatives from the her calculation of the market return. Calculating the risk premium associated with the proxy group utilities fails unless the market premium represents the totality of choices available to the investor. Because the exclusion of non-dividend paying utilities is so fundamentally inconsistent with the CAPM and there is no record evidence to support Ms. Phipps novel reformation of the CAPM, reliance upon Ms. Phipps' result cannot be sustained.

IIEC's Recommendation.

On behalf of IIEC, Mr. Gorman relies upon his DCF recommendation in arriving at his 9.10% rate of return. Mr. Gorman's DCF is derived using three DCF model: Constant growth DCF, sustainable growth DCF, and a multi-stage DCF. Mr. Gorman's model is deficient for two reasons. First, he uses the "b times r" approach in arriving at his constant growth DCF and first two stages of growth rates used in his multi-stage DCF. (Ameren Ex. 20.0, p. 44.) As Mr. Hevert notes, that process has been previously rejected by the Commission. (*Id.*) Second and more importantly, Mr. Gorman uses a very low third stage growth rate that is also based upon GDP projections. (*Id.*, p. 46.) For the very same reasons stated above with regard to Ms. Phipps, this approach should not be accepted. The record cannot support the use of GDP projections to formulate a third-stage growth rate that is inconsistent with both historical market experience and forward looking expectations regarding the assumed long term risk free rate of return. As noted

above, the record contains no explanation as to what is included in forecasted GDP, and what will be included in 2023. Without that evidence the Commission has no means of ascertaining if the GDP based projections are an accurate measure of the long-term expectations in the minds of investors.

Mr. Gorman provides a summary of his DCF findings on page 28 of his direct testimony. (IIEC Ex. 1.0.) However, his constant growth and multi-stage DCF are virtually the same. Given that the purpose of a multi-stage DCF analysis is to show an initial, transition, and long term perspective, it appears that Mr. Gorman has merely duplicated his constant growth average and washed out that average in coming up with his overall recommendation. Indeed, the growth rate Mr. Gorman uses for his constant growth DCF is 4.99% and long-term growth rate for his third-stage DCF is 4.9%. (*Id.*, pp. 20, 24.) Included in his average, Mr. Gorman produces a "sustainable" growth DCF result of 9.66%. On its face, it is illogical for Mr. Gorman to have essentially double-counted a DCF with a 4.9% growth rate and average the sum against what he has modeled to be "sustainable" in terms of growth.

Mr. Gorman does not rely on a CAPM analysis in this case. (IIEC Ex. 1.0, p. 36.) Given that the CAPM is traditionally used by the Commission and also is well suited to meeting both the *Hope* and *Bluefield* cases, Mr. Gorman's reliance upon only DCF results is a serious shortcoming in his recommendation. Further, in a rising interest rate environment, the import of rising interest rates is more demonstrable from the CAPM model, and thus Mr. Gorman's recommendation does not give proper accord to this important contemporary development in the financial market place.

Similar to Ms. Phipps' disregard for her own multi-stage DCF, Mr. Gorman does prepare a CAPM but then dismisses it because it produces an unreliable result. (*Id.*) AIC agrees that the

result should be disregarded, but the CAPM should not be disregarded as an analytical model because of its proficiency in measuring the expectations of the diversified investor who has choices in the stocks she chooses to include in her portfolio. As noted previously, the CAPM is an important tool in satisfying the *Hope* and *Bluefield* standards. Rather than disregarding the model entirely, Mr. Gorman should have examined the cause of the deficient result and corrected the model. It is plainly obvious why the CAPM result was unsupportable; Mr. Gorman under-measured the overall market return at 9.9%, which is significantly below what has been experienced throughout the modern history of the U.S. economy. (Ameren Ex. 20.0, pp. 49-54.)

Mr. Gorman's recommendation of a very low 9.10% also suffers from self-imposed limitations that narrow his perspective in a manner that is inconsistent with a more reasoned and informed view that investors would have. Mr. Gorman's recommendation is well below the national average authorized gas ROE of 9.94% and also below all three of the recent Commission rate decisions. Mr. Gorman's recommendation is also below the 9.3% he recommended in a Washington state rate case addressing gas rates, and also the stipulated 9.8% supported through sworn testimony provided earlier this year in a Montana gas utility rate case. (Tr. 603-607.) In fact, in Montana, Mr. Gorman used the exact same proxy group that all three ROE experts¹⁵ used in this case. (*Id.*; see AIC Cross Ex. 12 (Mr. Gorman Proxy Group exhibit used before Montana PUC); See ICC Staff Ex. 5.0R, p. 16-17; IIEC Ex. 1.0, p. 15.)

Ultimately, IIEC's recommendation should not be accepted because its limited perspective is inconsistent with investor expectations and produces a result that is lower than all relevant benchmarks, including Mr. Gorman's own recommendations in other jurisdictions.

¹⁵ Note that Staff excluded one proxy company, Laclede Group, in Rebuttal analysis. (ICC Staff Ex. 14.0, p. 3.)

Conclusion.

Bluefield and *Hope* require that the Commission accurately and fairly measure investor expectations in establishing a return on equity used to set rates. The Commission has done so in recent cases through the use of both the DCF and CAPM models. Mr. Hevert has provided a well-supported DCF and CAPM analysis for the Commission's consideration. In contrast, Staff and IIEC have selected and augmented methodologies that produce results well below relevant benchmarks including the Commission's recent decisions and the national average it recognizes to be 9.94%. These results are further problematic in that they fail to take into full account contemporary and prospective market conditions, including rising interest rates. Accordingly, the Commission should accept the Company's proposed 10.4% return on equity recommendation for the purpose of setting prospective rates.

C. Recommended Overall Rate of Return

The Company requests an overall rate of return equal to 8.566%. (Ameren Ex. 33.1.) The overall return is the product of the return requested on common stock, long-term debt, short-term debt and the cost of preferred stock. (*Id.*) In his surrebuttal testimony, Mr. Martin included an increased recommended rate of return attributable to the cost of long debt, which was greater than his original recommendation asserted in direct testimony. (Ameren Ex. 33.0 (Martin Reb.), p. 2.) The overall Rate of Return for Rate Zone I, Rate Zone II and Rate Zone III are shown on Schedule 5 of Appendix A, B, and C, respectively

V. COST OF SERVICE

A. Resolved Issues

B. Contested Issues

1. Cost of Service Study

a. T&D Main Allocation Methodology

In this case, as in previous gas rate cases,¹⁶ AIC used the peak-and-average method to allocate transmission and distribution main costs among the various rate classes. And, as in previous gas rate cases, IIEC contends that the peak-and-average allocation methodology is inappropriate. The Commission has rejected alternate approaches proposed in those cases and should do so again here.

The peak-and-average allocation method allocates costs based on the demand of each rate class on an average day, and on the peak demand day. (IIEC Ex. 2.0, p. 2.) The peak-and-average allocation methodology used by the Company is weighted so that the peak day demand comprises 70-80% of the allocation factor, while the average demand comprises the remaining 20-30%. (Ameren Ex. 38.0 (Althoff Sur.), p. 11.) Thus, although the Company's peak-and-average allocation method takes into account both the peak and the average demand of each rate class, the method is based primarily on the peak demand component. (*Id.*)¹⁷ The National Association of Regulatory Utility Commissioners' Gas Distribution Design Manual (NARUC Design Manual) notes that the peak-and-average method "allocates cost to all classes of customers and tempers the apportionment of costs between the high and low load factor

¹⁶ See, e.g., *Ameren Ill. Co.*, Docket 11-0282, Order, p. 135 (Jan. 10, 2012); *Ameren Ill. Co.*, Docket 07-0585 (cons.), Order, pp. 265-69 (Sept. 24, 2008).

¹⁷ Mr. Collins asserts that AIC's allocation factors are based "largely or entirely" on customer throughput (the average component of peak-and-average). (IIEC Ex. 4.0, p. 6.) However, the record shows this to be patently untrue. The average volume or customer throughput comprises only 20-30% of the overall allocation factor. (Ameren Ex. 38.0, p. 11.)

customers.”¹⁸

IIEC witness Mr. Brian Collins, however, claims that use of peak-and-average allocation methodology is inappropriate for several reasons. First, Mr. Collins states that the method “double-counts” the average component of demand, which he contends is “not a valid allocation of demand costs at all.” (IIEC Ex. 2.0, p. 3.) Second, Mr. Collins states that the peak-and-average method results in an “over-allocation” of costs to high load factor customers. (*Id.*) Third, Mr. Collins argues that peak-and-average cost allocation does not properly reflect cost causation, since the Company designs its transmission and distribution systems based on peak demand, instead of annual throughput. (*Id.*) Finally, Mr. Collins testified that the peak-and-average allocation method is “inconsistent with current industry accepted practice.” (*Id.*, p. 4.) Mr. Collins recommends allocating the costs of the transmission and distribution system based solely on the peak day demand of each rate class. (*Id.*) His proposal thus eliminates any consideration of average daily demand from the allocation methodology.

Mr. Collins’ proposal is also contrary to long-standing and well-established Commission practice. The Commission has found that, “when allocating [transmission and distribution] plant costs an emphasis on average demand is appropriate.” *Ill. Power Co.*, Docket 04-0476, Order, p. 64 (May 17, 2005). In many other cases, the Commission has favored use of the peak-and-average allocation methodology. *See, e.g. Ameren Ill. Co.*, Docket 11-0282, Final Order, p. 135; *Ameren Ill. Co.*, Docket 07-0585 (cons.), Order, pp. 265-69; *N. Ill. Gas Co.*, Docket 04-0779, Order, p. 101-02 (Sept. 20, 2005); *Illinois Power Co.*, Docket 04-0476, Order, p. 64-65 (May 17, 2005); *Central Ill. Pub. Serv. Co.*, Docket 02-0798 (cons.), Order, p. 98 (Oct. 22, 2003); *Central*

¹⁸ *NARUC Design Manual*, pp. 27-28 (available at <http://www.naruc.org/international/Documents/NARUC%20Gas%20Distribution%20Rate%20Design%20Manual%201989.pdf>).

Ill. Light Co., Docket 02-0837, Order, p. 90-91 (Oct. 17, 2003). The Commission’s rationale for using the peak-and-average method to allocate transmission and distribution main costs is that these facilities “exist because there is a *daily* need for such facilities,” not solely because there is a need to serve peak demand. *Central Ill. Pub. Serv. Co.*, Docket 02-0798 (cons.), Order, p. 98 (Oct. 22, 2003) (emphasis added). Thus, the peak-and-average method “properly emphasizes the average component to reflect the role of year-round demands in shaping transmission and distribution investments.” *Id.* Mr. Collins’ proposal would achieve the opposite result – complete elimination of the average component of the calculus.

The longstanding Commission preference for the peak-and-average allocation method belies Mr. Collins’ repeated assertions that the method is “inconsistent with current industry accepted practice.” (IIEC Ex. 2.0, p. 4.) Mr. Collins himself admits that he is unaware of any instance in which an Illinois utility has been ordered by the Commission to use the method he proposes. (Ameren Exs. 24.5, 24.6, 24.7.) The only evidence Mr. Collins has provided in support of his contention that peak-and-average allocation is not industry accepted was a citation to the NARUC Design Manual (*see* IIEC Ex. 2.0, p. 4), which, contrary to Mr. Collins’ assertion recognizes incorporation of average demand within a demand allocator.¹⁹ Clearly, it is Mr. Collins’ proposal that is inconsistent with current industry practice.

The Commission has rejected several of Mr. Collins’ remaining arguments in previous

¹⁹ “Demand costs are multiplied by the system’s load factor to arrive at the capacity costs attributed to average use and are apportioned to the various customer classes on an annual volumetric basis. The remaining costs are considered to have been incurred to meet the individual peak demands of the various classes of service and are allocated on the basis of the coincident peak of each class. This method allocates cost to all classes of customers and tempers the apportionment of costs between the high and low load factor customers.” *NARUC Design Manual*, pp. 27-28 (available at <http://www.naruc.org/international/Documents/NARUC%20Gas%20Distribution%20Rate%20Design%20Manual%201989.pdf>).

gas rate cases. In Docket 04-0476, IIEC argued that the peak-and-average method resulted in excessive allocation of transmission and distribution costs to large volume customers. *Ill. Power Co.*, Docket 04-0476, Order, p. 65. Mr. Collins makes an identical argument in the current proceeding. (ICC Staff Ex. 2.0R, p. 3.) In Docket No. 04-0476, the Commission rejected this argument, finding that it was logically unsound. The Commission noted that selection of an allocation factor is necessary because it is difficult or impossible to directly assign the costs of transmission and distribution plant among customer classes. *Ill. Power Co.*, Docket 04-0476, Order, p. 65. However, IIEC's argument in that case, as in the current proceeding, assumed that the cost of transmission and distribution main plant attributable to large users could be ascertained, and that IIEC was endorsing an allocation factor that was consistent with the known costs. *Id.* Because the allocation factor is essentially arbitrary (or, at least, prohibitively difficult to mathematically confirm), it cannot be said that its application results in "over-allocation." On the contrary, the Commission has consistently applied the peak-and-average allocation method, finding that it is "most likely to be reflective of cost causation and produces fair and reasonable results." *Id.* at 64.

Mr. Collins' last remaining argument is that a demand-only allocation of transmission and distribution main costs would send more accurate price signals to customers, and, therefore result in more economically efficient outcomes. (IIEC Ex. 4.0, pp. 5-6.) As explained by AIC witness Ms. Althoff, however, a customer will only receive a price signal as a result of an allocation factor if the allocation factor has a noticeable effect on the price paid by the customer. (Ameren Ex. 38.0, p. 12.) With respect to the GDS-4 customers on whose behalf Mr. Collins advocates, 95% of their current total bill is commodity-based, while 5% is delivery-related costs. (*Id.*) Thus, 95% of a GDS-4 customer's bill would be determined only by commodity prices,

while only 5% would be impacted by Mr. Collins' proposed change in transmission and distribution allocation factors. The price signals sent by such a change would be minimal at best. Moreover, for the GDS-4 class, AIC has proposed to move toward elimination of the volume component of the delivery charge and rely instead on a demand charge. (*Id.*) Thus, AIC's proposal achieves Mr. Collins' stated goal of economic efficiency while eliminating the volume component of the allocation factor.

Finally, Mr. Collins' proposal results in greater allocation of costs to residential customers, with fewer costs allocated to larger customers with consistent usage throughout the year. (Ameren Ex. 24.0 (Althoff Reb.), pp. 21-22.) In contrast, the peak-and-average allocation method advocated by AIC and repeatedly adopted by the Commission "tempers the apportionment of costs between the high and low load factor customers." (*Id.*, p. 18, citing NARUC Design Manual, pp. 27-28.) Thus, the peak-and-average allocation method is not only consistent with long-standing Commission precedent, but it also comports with cost causation principles and produces fair and reasonable results. *See Ill. Power Co.*, Docket No. 04-0476, Order, p. 65. Therefore, Mr. Collins' proposal should be rejected in favor of the peak-and-average methodology.

b. Low Pressure Distribution System

IIEC witness Mr. Collins recommends that a portion of the cost of low pressure distribution mains be allocated on a customer component, and states that, "based on [his] experience, approximately 40% of the cost of distribution mains is a reasonable amount of main costs that should be allocated on a customer component." (IIEC 2.0, p. 9.) Mr. Collins' recommendation is entirely without factual support, is not based on any analysis of data regarding AIC's system or customers, is opposed by Staff and AG/CUB, and has been consistently rejected by the Commission.

First, Mr. Collins acknowledged in his direct testimony that he had not performed any analysis of AIC's distribution costs prior to arriving at his recommendation that 40% of those costs be allocated on a customer component. (*Id.*) Instead, Mr. Collins stated that his recommendation was "based on [his] experience." (*Id.*) Although AIC, Staff and AG/CUB challenged Mr. Collins' recommendation in their rebuttal testimony (Ameren Ex. 24.0, pp. 19-20; ICC Staff Ex. 15.0, pp. 21-23; AG/CUB Ex. 7.0, pp. 1-3), he provided no additional factual or analytic support for the recommendation that a portion of distribution costs be allocated on a customer component, or for his assertion that 40% was an appropriate allocation. (IIEC Ex. 4.0, pp. 7-8). Thus, there is absolutely no factual support for Mr. Collins' recommendation in the record.

Second, Mr. Collins' recommendation would result in greater allocation of costs to residential consumers, with fewer costs being allocated to larger customers with consistent usage throughout the year. (Ameren Ex. 24.0, p. 21.) According to IIEC Exhibit 2.1, the residential customer class in Rate Zone I would bear an additional \$2.8 million in costs, while Rate Zone II residential customers would bear an additional \$4.5 million, and Rate Zone III residential customers would bear an additional \$7.1 million. Clearly Mr. Collins' recommendation is an effort to push costs away from his clients at the expense of residential ratepayers.

Moreover, the Commission has consistently rejected similar recommendations. *See, e.g. Ameren Ill. Co.*, Docket 07-0585 (cons.), Order, p. 280; *N. Ill. Gas Co.*, Docket 08-0363, Order, p. 77 (Mar. 25, 2009); *Central Ill. Light Co.*, Docket 06-0070 (cons.), Order, p. 161 (Nov. 21, 2006); *Central Ill. Pub. Svc. Co.*, Docket 00-0802, Order, pp. 41-43 (Dec. 11, 2001); *MidAmerican Energy Co.*, Docket 01-0444, Order, p. 19 (Mar. 27, 2002); *N. Ill. Gas Co.*, Docket 88-0277, Order, pp. 298-99 (June 21, 1989). The Commission should not now reverse more than

10 years of consistent practice in favor of an unsupported recommendation that would result in a significant shift in cost allocation.

VI. REVENUE ALLOCATION

A. Resolved Issues

B. Contested Issues

VII. RATE DESIGN

Ameren Illinois continues to support movement toward single-tariff pricing, provided that such movement is conducted in a manner that is consistent with the fundamental principles of cost-causation and is mindful of customer impacts. This case represents yet another constructive step in a series of cases aimed at achieving this Commission-endorsed goal. As stated by the ICC in Docket 10-0517, “the Commission supports AIC’s goal of single-tariff pricing, but any movement toward this goal must also consider the Commission’s efforts to foster cost-based rates.” *Cent. Ill. Light Co., et al.*, Docket 10-0517, Order, p. 20 (March 15, 2011). In providing this guidance, the Commission stated that “[it] does not mean to suggest that AIC must wait until such costs are equal among all three rate zones before the consolidation...The Commission can envision a point in the future where the costs of serving customers of two of the legacy utilities...may be considered ‘close enough,’ all things considered, and ready for consolidation.” *Id.* at 20-21.

In furtherance of this goal, AIC has proposed, and Staff has agreed to, several constructive, cost-based pricing movements. Specifically, AIC is proposing uniform charges for Rate Zone I and III GDS-1 customers. (*See* Ameren Ex. 8.0 (Jones Dir.), p. 9.) As described by Ameren Illinois witness Mr. Jones, “[c]osts for these customers are within 10% of the combined average for the two zones and present prices are similar.” (*Id.*, p 9:181-83.) ICC Staff witness Mr. Boggs recognizes the current pricing similarities and recommends the Commission adopt

AIC's proposal. (*See* ICC Staff Ex. 6.0, p. 33.) Similarly, AIC is also proposing uniform GDS-2 charges in Rate Zones I and II. (Ameren Ex. 8.0, p. 9.) As described by Mr. Jones, "[c]osts for these customers are within 10% of the average (compared to a weighted average across AIC for GDS-2 as well as a weighted average of costs for Rate Zones I and II only)." (*Id.*, p. 9:183-85.) Mr. Boggs again agrees. (*See* ICC Staff Ex. 6.0, p. 34.) Finally, AIC is proposing that the Customer Charges for Rate GDS-3 in Rate Zones I and II be set uniformly, but the Delivery Charge be set independently to a level that achieves the remaining revenue requirement target for the class in each respective Rate Zone. (Ameren Ex. 8.0, p. 9.) "While GDS-3 costs in Rate Zones I and II are within 10% of the weighted average of Rate Zones I and II, and Customer Charges are similar, existing Delivery Charges are presently not... Thus, the Company is proposing only a uniform Customer Charge." (*Id.*, p. 9:190-92.) Staff again accepts this proposal and recommends the Commission adopted the GDS-3 pricing as proposed. (*See* ICC Staff Ex. 6.0, p. 36.)

A. Resolved Issues

1. SFV Cost Recovery

Although AIC originally proposed, in its direct filing, to increase the percentage of fixed delivery service costs recovered through the Customer Charge from GDS-1 and GDS-2 customers from 80% to 85% (Ameren Ex. 8.0 (Jones Dir.), p. 3), AIC and Staff are now in agreement that fixed cost recovery should remain unchanged at 80%. (Ameren Ex. 37.0, p. 2.) As such, for the purposes of this case, Ameren Illinois recommends the Commission maintain SFV fixed cost recovery at 80%, consistent with Commission precedent and in recognition of the common position of Staff and AIC.

2. GDS-5 Rate Availability

AIC is proposing in this case to terminate a GDS-5 expanded tariff availability

experiment ordered by the Commission in AIC's last gas rate case, ICC Docket No. 11-0282. (See Ameren Ex. 24.0 (Althoff Reb.), p. 25.) This experiment allowed select customers that would otherwise be eligible for GDS-3 classification to remain on the GDS-5 seasonal rate, but to pay the GDS-3 Customer Charge rather than the GDS-5 Customer Charges. (*Id.*) AIC is not proposing to terminate the GDS-5 rate class, but rather recommends such class remain as a "separate and distinct optional service." (*Id.*, p. 25:537-38.) Both Staff and AG/CUB agree with the recommended termination of the GDS-5 experiment and the continued availability of the class in general. (See Ameren Ex. 38.0 (Althoff Sur.), p. 8; *see also* ICC Staff Ex. 6.0, p. 52.) No party challenges this shared recommendation.

B. Contested Issues

1. GDS 1 Increase

As indicated above, the Company and Staff are now in agreement that the percentage of fixed delivery service costs recovered through the Customer Charge from GDS-1 (and GDS-2) customers should remain unchanged at 80%. (Ameren Ex. 37.0 (Jones Sur.), p. 2.) AG/CUB witness Mr. Rubin, however, recommends that "[f]or purposes of setting rates in this case, there should be no change in Ameren's existing customer charge for GDS-1 in any Rate Zone, other than a minor increase or decrease that may be necessary to consolidate the rates for Rate Zone I and Rate Zone III. That is, the entire rate increase allocable to Residential customers (if any) should be recovered through increases in the per-therm distribution charge." (AG/CUB Ex. 3.0, p. 4:82-87.)

As described by Ameren Illinois witness Mr. Jones, "Mr. Rubin's proposal results in approximately 55% increases to the Delivery Charge for Rate Zones I and III, and 92% for Rate Zone II." (Ameren Ex. 37.0, p. 14:267-77.) As a result, "[t]his proposal will unduly impact customers who heat their homes using natural gas, especially if winter temperatures turn severe."

(*Id.*, p. 14:277-78.) Explained further, "[c]ustomers will be forced to pay more even though AIC's delivery costs to serve that customer did not change." (*Id.*, p. 14:278-80.) "Presumably Mr. Rubin's proposal is [intended] to protect the minority of customers (small use) from allegedly paying amounts greater than cost of service, but it comes at the cost of subjecting the majority of customers to greater expense for a necessary service substantially outside of their control when temperatures turn severe." (*Id.*, pp. 14-15:280-83.) Although AIC does not agree or concede "that the cost to serve non-heating customers is significantly lower than the costs to serve heating customers" (*Id.*, p. 14: 260-72), Mr. Rubin's concerns may be better explored in the context of a future case, when, as discussed below, Ameren Illinois is in possession of data better demonstrating the usage characteristics of assumed heating (high use) and non-heating (low use) customers.

At least implicitly, Mr. Rubin's proposal has the practical effect of lowering the percentage of fixed costs recovered through the Customer Charge from GDS-1 customers. This is a step backwards in terms of Straight-Fixed Variable (SFV) rate design and flies in the face of the Commission's rationale in approving such design in the first place. In Docket 07-0585, the Commission noted that the 80% fixed cost recovery mechanism would (1) help ensure that the Company does not over- or under-recover its Commission-approved base rate revenue requirement with changes in sales, (2) send proper price signals to customers, and (3) arguably decreases any disincentive AIC may perceive to implementing gas efficiency programs. *See Cent. Ill. Light Co., et al.*, Docket 07-0585 (cons.), Order, p. 237 (Sept. 24, 2008). These findings hold true today and continue to form a sound basis for approval of continued application of the 80% fixed cost recovery recommended by Staff and Ameren Illinois for GDS-1 customers.

2. Heating vs. Non-Heating Customer Study

AG/CUB witness Mr. Rubin recommends the Commission "require Ameren to separate

its residential class into a heating class and a non-heating class" and to "prepare a cost-of-service study in its next case that determines the cost to serve non-heating customers separately from the cost to serve heating customers." (AG/CUB Ex. 3.0, p. 4:77-81.) Unfortunately, Mr. Rubin's recommendation to separate Ameren Illinois's residential class into separate heating and non-heating classes is drastically premature. Although his concerns are based at least in part on a perceived lack of homogeneity (and related pricing disparities) amongst heating and non-heating residential customers (AG/CUB Ex. 3.0, p. 25), this conclusion is without evidentiary support, as there is scant information available upon which to base this decision. In short, this conversation is best left deferred to a future proceeding, at which time, and as described below, parties will be in possession of more information upon which to make a decision regarding the potential future division of the current residential customer class.

In an attempt to better understand the costs to serve residential heating as opposed to residential non-heating customers, AIC has committed to provide, at the request of the Commission, a study or report presenting the usage characteristics of its residential customers. (Ameren Ex. 37.0 p. 5.) This study may provide a better understanding about the usage characteristics of space heating and non-space heating customers. Unfortunately, the Company and AG/CUB do not agree on which customers should be the focus of the study (i.e. which characteristics are likely tied to space heating versus non-space heating users, so as to serve as the "line" by which to separate the current class, should such separation ever be warranted). If the Commission desires such a study, Ameren Illinois needs clarification on the intended focus.

AG/CUB witness Mr. Rubin recommends that any future study focus on residential customers who do not use more than 30 therms per month. (AG/CUB Ex. 7.0, p. 4.) Mr. Rubin bases his recommendation on data compiled by the U.S. Department of Energy, which he

considers a "reasonable proxy for customers who do not heat with natural gas." (*Id.*, p. 4: 80-82.) Ameren Illinois witness Mr. Jones believes 20 therms per month to be a more appropriate cut-off. As described in his surrebuttal testimony, "[t]he U.S. Energy Information Administration data relied upon as the source of Mr. Rubin's annual consumption input overstates and misrepresents the usage characteristics of residential natural gas customers in AIC's footprint." (Ameren Ex. 37.0, p. 6:119-21.) Mr. Jones explains that "while this [U.S. Energy Information Administration] data is provided on an Illinois statewide basis, the data does not reflect that downstate residential natural gas consumers generally use less gas on an annual basis than their neighbors to the north" because AIC's customer base is located "primarily in central and southern Illinois where temperatures are warmer." (*Id.*, p. 6:121-23,130-31.) Applying AIC-specific test year consumption data to the same proxy consumption percentage used by Mr. Rubin yields estimated average consumption for non-space heating customers at 20 therms per month. (*Id.*) This cut-off is the appropriate focus of any future study of usage characteristics.

3. Proposed Rate Increases for Rate Zone III GDS-4

Consistent with prior Commission direction, Ameren Illinois is proposing in this case to apply a revenue allocation constraint that would restrict rate increases incurred by each class to 1.5 times the overall system average increase. (Ameren Ex. 9.0 (Althoff Dir.), p. 21.) As described by AIC witness Ms. Althoff, "[t]he application of revenue constraints will allow AIC to move toward price uniformity of the three rate zones gradually, while limiting impacts of customers' bills." (*Id.*, p. 21:446-48.) AG/CUB witness Mr. Rubin generally agrees with this approach:

I consider [the Company's revenue allocation] constraint to be a reasonable way to implement the rate design principles of gradualism and equity (or fairness) so that no customer class bears a disproportionate share of any rate increase. Such a constraint also helps to moderate the effect that significant changes in cost

allocation methodologies or internal operations may have on the allocation of the revenue requirement.

(AG/CUB Ex. 3.0, p. 5:111-15.)

However, Mr. Rubin is concerned that, as applied to certain classes, the allocation constraint may not be working to move rates towards class cost-of-service at a reasonable pace. (*See id.*) As a result, Mr. Rubin proposes to maintain the Company's revenue allocation constraint except in situations where continued application would not result in rates reflecting class cost-of-service at the end of 10-year (5 assumed rate case) period. (*Id.*) In this situation, Mr. Rubin would recommend "either (a) increasing rates so that cost-based rates would be achieved through approximately equal percentage increases over a span of five rate cases or (b) changing the make-up of the customer class so that its cost characteristics are substantially modified." (*Id.*, p. 5:124-31)

After discussing a series of hypothetical rate increase scenarios (the assumptions internal to which may or may not reflect future rate increase filing conditions), Mr. Rubin determines that GDS-5 customers (in all Rate Zones) and GDS-4 customers in Rate Zone III are not likely to generate revenues reflecting those classes' costs-of-service at the end of the assumed 10-year period. (*See id.* pp. 6-18.) As a result, Mr. Rubin proposed in this case to increase Rate Zone III GDS-4 rates by 2.0 to 2.4 times in an effort to "start making reasonable progress toward moving the class's revenues closer to the cost of serving the class." (*Id.*, p. 16:305-07.)²⁰

Unfortunately, the proposed increase offered by Mr. Rubin is "excessive" (Ameren Ex. 38.0 (Rev.) (Althoff Sur.), p. 20:391) and offends prior Commission decisions on the issue. As

²⁰ Ameren Illinois understands Mr. Rubin's concerns regarding GDS-5 movement to have been addressed given what appears to be a joint consensus to terminate the GDS-5 experimental tariff eligibility program (*See id.*, p. 10:193-95 ("The Alternative [to a 52% recommended increase], which I would prefer, would be for the Commission to terminate the experiment that allowed peaking customer to take service under a non-peaking, seasonal rate."))

described by AIC witness Ms. Althoff, if the Commission were to apply the upper end of Mr. Rubin's proposed range (the 2.4 times increase factor) to the overall system average by Rate Zone, the increase would be 25.75% for GDS-4 customers in Rate Zone III as opposed to the 16.09% increase proposed by AIC. (Ameren Ex. 24.0, p. 28.)

In addition, Mr. Rubin fails to present any factual basis supporting his specific recommendation. For example, he fails to explain why it is appropriate to examine movement toward class cost-of-service over a 10-year (or five rate case) period and/or why his hypothetical increase percentages over that period are in fact reasonable estimates. When asked why he chose to present his Rate Zone III, GDS-4 recommendation in the form of a range, Mr. Rubin punted to the Commission's "substantial discretion" on rate design decisions and acknowledged that the specific increase factor adopted may ultimately depend on the overall revenue requirement increase approved in the case (with a mitigation factor toward the lower end of his range perhaps being more appropriate should the Commission grant a revenue requirement increase of the magnitude proposed by the Company). (*See* Ameren Ex. 24.9.)

Staff agrees with the Company in recommending that Mr. Rubin's proposal be rejected in favor of the 1.5 times revenue allocation constraint proposed by the Company. (*See* ICC Staff Ex. 15.0, p. 14.) As described by Staff witness Mr. Boggs, "[t]he 1.5 times the system average percentage increase constraint does allow progress toward full cost recovery, allows for a reduction in inter-class subsidies and avoids rate shock." (*Id.*, p. 11:189-91.)

In conclusion, the mitigation constraint proposed by AIC was approved for use by the Commission in prior Ameren Illinois natural gas cases. *See* Docket 11-0282, Order (Jan. 10, 2012), p. 135. Mr. Rubin has presented no evidence that would provide a sound basis for the Commission to disturb precedent on this issue. As concluded by Ms. Althoff, "[t]he 1.5 times

impact mitigation constraint proposed by AIC aids in tempering bill impacts to both customer classes and to individual customers. This mitigation constraint has been approved by the Commission in recent cases, including AIC's most recent natural gas case, and should continue to be applied in this proceeding." (Ameren Ex. 24.0, p. 28:597-601.)

4. Proposed Rate Design for Rate Zone II GDS-4

Unlike Rate Zones I and III, Rate Zone II has a tiered Demand Charge based on therm usage for Rider T customers. (*See* Ameren Ex. 38.0 (Rev.) (Althoff Sur.), p. 15.) The first tier Demand Charge applies to customers using 2 million therms or less annually, while the second tier Demand charge applies to customers using more than 2 million therms annually. (*Id.*) The second tier Demand Charge tier has lower pricing than the first tier. (*Id.*)

In this case, AIC is proposing to move toward eventual elimination of the Rider T tiered demand structure by assessing greater percentage increases to the Rate Zone II, GDS-4 tier two Demand Charge. (*Id.*) As explained by Ms. Althoff, this movement is a "cost-based" step toward better aligning the price structure applicable to Rider T customers with that applicable to Rider S customers. (*See id.*)

IIEC witness Mr. Collins suggests an "across-the-board" increase for both Demand Charge tiers. (IIEC Ex. 2.0, p. 14, ll. 301-06.) This perpetuates the very disparities the Company is attempting to correct.

Mr. Collins's concerns are apparently based on the fact that some members of the GDS-4 class, such as a hypothetical customer discussed in his direct testimony, would be subject to rate increases higher than system average. (*See id.*, pp. 13-14.) However, as explained by Ms. Althoff, "[i]n accordance with prior Commission directives, AIC has proposed a limitation on rate increases of 1.5 times the system-average increase." (Ameren Ex. 24.0 (Althoff Reb.), p. 23:485-86.) Under this approach, and "[b]y definition, some customers will be above an average

while others will be below." (*Id.*, p. 23:486-87 (citing Ameren Ex. 24.8).) As a practical matter, "[i]t is virtually impossible to ensure that each and every customer experience[s] an identical percent change in rates." (*Id.*, p. 23:488-89.) However, the Commission has endorsed, and Ameren Illinois has applied, a [1.5 times] average constraint factor in order to avoid the undue bill impacts about which Mr. Collins complains. (*Id.*, p. 23:488-90.)

In addition, Mr. Collins, while repeatedly citing the potential for "rate shock" under the Company's proposal, fails to consider this perceived "shock," in the context of a customer's total bill. Had his comparison included the cost of gas, his hypothetical customer would have seen 1% overall increase. (*Id.*, p. 23:494-96.) To this end, "AIC calculated individual bill impacts for Rate Zone II using present versus proposed rates and found that on a total bill basis (delivery and cost of gas), customer bills increased slightly under 3.0% on average." (*Id.*, p. 24:498-500.)

Mr. Collins also fails to consider the effect the implementation of Rider TBS has had on GDS-4 pricing and the significance of this effect in the context of the Company's current proposal. By way of background, when Rider TBS became effective, rates were adjusted downward, primarily affecting GDS-4 customers. (Ameren Ex. 38.0 (Rev.), p. 17.) An analysis comparing present rates with those in effect prior to the implementation of Rider TBS shows that the implementation of Rider TBS drove down rates for over half of the GDS-4 customers in Rate Zone II, both in terms of delivery service charges and total bills (*See id.*, p. 18.) Interestingly enough, "even if the Commission were to approve the level of revenue requirement [contained in the Company's] direct filing, some Rate Zone II, GDS-4 customers with usage over two million therms *would still not be paying rates greater than those established before Rider TBS' effective date of May 1, 2012.*" (*Id.*, p. 18:369-72 (emphasis added).) Given this context of Rate Zone II GDS-4 price movement over the last several years, it is difficult to see how the Company's

proposal is likely to generate the "rate shock" alleged by Mr. Collins.

Regardless, AIC has in this case attempted to temper the impact of bill increases on Rate Zone II, GDS-4 customers. Staff witness Mr. Boggs recognizes this and agrees with the Company's proposal. As stated by Mr. Boggs in responding the hypothetical offered in Mr. Collins direct testimony, "[n]o rate design proposal can be a perfect fit for all customers and, in this case, some GDS-4 customers in Rate Zone II have the potential to see their rate increase above the Company's intended 1.5 times the system average increase. The Company has attempted to mitigate rate shock to all customer classes in all rate zones while forging ahead with the Commission's preference to move toward price uniformity." (ICC Staff Ex. 15.0, p. 28).

VIII. SVT PROGRAM

A. Resolved Issues

At the conclusion of AIC's prior gas rate case, the Commission ordered AIC and interested stakeholders to participate in "small volume transportation," or SVT, workshops hosted by Staff to determine "whether an SVT is appropriate for the AIC service territories," and to address a variety of SVT-related issues including the benefit to customers, the reasonableness of costs to implement such a program, the level of utility support for the competitive market, providing full cost recovery to AIC for implementing an SVT program and the properly adjusted price-to-compare. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 194 (Jan. 10, 2012). In the event the workshops did not result in agreement between all parties, the Commission directed Staff to file a report about the workshops and the issues that prevented consensus. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 194.

Eight workshops were held between March 8, 2012, and September 10, 2012. (Ameren Ex. 1.0 (Nelson Dir.), p. 6.) Although it appeared that some consensus was developed on the operational components of an SVT program, there are three major issues on which consensus

was not reached: (i) consumer protections; (ii) the legality of providing consolidated billing for natural gas customers; and (iii) the recoverability of expenditures for gas billing and management system improvements necessary to support an SVT program. (*Id.*) Given this lack of consensus, Staff submitted its report to the Commission on January 10, 2013. (ICC Staff Ex. 7.0, p. 5.) Additionally, at Staff's request, AIC filed supplemental direct testimony in this case attaching the draft tariffs necessary to implement SVT. (Ameren Exs. 13.0 (Seckler Supp. Dir.), 13.1, 13.2.)

AIC maintains a neutral position with regard to the adoption of SVT and considers the matter a question of policy to be determined by the Commission. AIC seeks clear direction from the Commission in this proceeding as to whether or not it should implement a SVT program in its service territory. AIC will implement a SVT program if the order in this proceeding directs AIC to do so and approves recovery of associated costs. As discussed below, while some parties disagree on certain aspects of the program, all parties agree that the Commission's direction is warranted before AIC unilaterally implements a SVT program. The parties also agree that the specifics of the tariffs should be litigated in a separate, future proceeding. However, AIC will address the operational and tariff design issues raised by Staff and Intervenors in the event the Commission approves the proposed program and draft tariffs in this proceeding.

1. SVT Program Separate Proceeding

Staff witness Dr. Rearden recommends the Commission limit its determination in this proceeding to whether AIC should implement a SVT program, and if an affirmative determination is made, to then order AIC to submit draft tariffs for Commission review in a future proceeding. (ICC Staff Ex. 7.0, p. 7.) As discussed by AIC witness Mr. Craig Nelson, if the Commission orders AIC to implement a SVT program and approves the funding of the program, AIC supports addressing the operational and tariff design issues, as well as other

related issues, in a separate docketed proceeding. (Ameren Ex. 16.0 (2d Rev.) (Nelson Reb.), p. 14.)

A separate proceeding is necessary to fully address any remaining operational and tariff design issues, as well as other related issues associated with the SVT program. (*Id.*) Staff agrees. (ICC Staff Ex. 16.0, p. 3.) As was noted by Staff, the draft tariffs were not introduced until later in the workshops and, perhaps, there was not sufficient opportunity for all concerned to weigh in on the tariff's material terms and conditions. (ICC Staff Ex. 7.0, p. 7.) Also, the gas transportation program geared to residential and small commercial customers must take into consideration matters of cost responsibility, cost allocation, billing system issues, consolidated billing, purchase of receivables, and many other issues that warrant attention in their own docket. (Ameren Ex. 16.0 (2d Rev.), p. 14.) Finally, because AIC cannot begin the program until the fourth quarter of 2014, there is enough time to litigate these tariffs in a separate proceeding.

Mr. James Crist testifies for RGS that if the Commission decides another docket is necessary to approve the SVT program, it should be made clear the purpose of the docket is to finalize the tariffs and that the starting point is the draft tariffs provided by AIC in this proceeding. (RGS Ex. 2.0, p. 8.) He further recommends the Commission direct AIC to hold tariff workshops immediately following the order in this case with the purpose of improving and editing the tariffs and filing the revised tariffs 45 days from the order in this case. AIC agrees with this recommendation as the parties have advanced many positions for the Commission to consider in this docket. The Commission should advise the parties which positions and areas of compromise it accepts.

Assuming the Commission approves an SVT program and associated cost recovery in this docket, AIC is prepared to file a petition, tariffs, supporting testimony and exhibits within 45

days after the date of the order in this docket. (Ameren Ex. 16.0 (2d Rev.), p. 14.) AIC will also propose an expedited schedule for the proceeding, and request a final order 150 days after the filing. This schedule will permit the SVT program to begin in the 4th quarter of 2014.

2. Budget Billing Plan for SVT Customers

In his direct testimony, ICEA/RESA witness Mr. Stephen Puican stated it is not clear how customers switching from Rider S to Rider SVT would impact AIC's Budget Billing program. (ICEA/RESA Ex. 2.0, p. 14.) In rebuttal, Amren witness Ms. Vonda K. Seckler explained AIC's comprehensive plan to provide budget billing to SVT customers. (Ameren Ex. 26.0 (Seckler Reb.), pp. 25-28.) Mr. Puican testified in rebuttal that Ms. Seckler's detailed explanation of how the program would operate satisfied his concerns. (ICEA/RESA Ex. 4.0, p. 20.)

3. Rider SVT

a. Assessment of Pipeline Penalties

See Section VIII (B)(8)(a) *infra*.

b. Utility Consolidated Billing

AIC's electric service experience demonstrates Utility Consolidated Billing/Purchase of Receivables (UCB/POR) is an important aspect of a successful SVT program and has therefore included this provision in its tariffs and cost projections. (Ameren Ex. 40.0 (Seckler Sur.), p. 7.) Although CUB witness Mr. Martin Cohen cautions the Commission to scrutinize the tariff's POR component, no party contests the inclusion of a provision for UCB.

c. Stakeholder Meetings

During the workshops, AIC proposed to conduct annual meetings with suppliers to review any unaddressed issues and desired changes in the SVT program. (Ameren Ex. 13.1, p. 7.) RESA and ICEA proposed the tariffs include a requirement that AIC conduct these meetings or,

alternatively, the Commission's final order direct AIC to do so. (ICEA/RESA Ex. 2.0, p. 13.)

Mr. Puican contends it is necessary to conduct regularly scheduled meetings encompassing a comprehensive review of the program rather than addressing issues piecemeal. (ICEA/RESA Ex. 4.0, pp. 19-20.) Further, he contends including a requirement for a mandatory annual meeting will ensure suppliers have a forum to comprehensively address issues that have arisen in the program to that point. (*Id.*)

AIC considered Mr. Puican's proposal, and assuming the Commission orders AIC to file the SVT tariffs in a later proceeding, agreed to a provision in the SVT tariff for annual meetings with stakeholders, including third party suppliers, to review desired changes in the SVT program, for a period of three years. (Ameren Ex. 40.0 (Seckler Sur.), p. 10.) Thereafter, the requirement would be removed from the tariff. (*Id.*) Further, AIC agreed to hold a collaborative meeting with stakeholders before the beginning of the next docket for the purpose of reviewing the tariff language that will be filed. AIC agrees to have one meeting with stakeholders and a second meeting if time permits, as determined in its discretion. (*Id.*)

d. Rescission Period

ICEA/RESA and RGS (collectively, the Marketers) believe the addition of a rescission period for customers with greater than 5,000 therms consumption is unnecessary and inappropriate. (ICEA/RESA Ex. 4.0, p. 14.) As Ms. Seckler explained, AIC agrees in principle that SVT switching rules apply to customers eligible for SVT service. AIC will use the Commission-approved switching rules for non-SVT eligible customers at the time SVT tariffs are filed. (Ameren Ex. 40.0, p. 8.)

e. Tariff Language Changes

Staff witness Ms. Jones recommended ministerial changes to AIC's draft tariffs that should be made in the event the Commission directs AIC to implement an SVT program and file

the related tariffs in this proceeding. (ICC Staff Ex. 8.0, pp. 3-5.) AIC agreed to the proposed changes for the SVT Supplier Terms and Conditions, Rider GSIC-Gas System Integrity Charge Calculation and Annual Reconciliations, and Rider GTA-Gas Transition Adjustment. AIC agreed in principle to the proposed changes to the Customer Terms and Conditions, but recommended minor changes as reflected in Ameren Exhibit 26.1. (Ameren Exs. 26.0, p. 13; 26.1.) Ms. Jones agreed with these proposed changes and, therefore, this issue has been resolved. (ICC Staff Ex. 17.0, p. 2.)

Rider SVT refers to a list called “Cities by Pipeline” that is maintained on AIC’s website. (Ameren Ex. 13.2, p. 1.) In response to Staff witness Dr. Rearden’s concern that the information on the list should be part of the tariffs, AIC agreed to revise the SVT tariff language that provides for the “Cities by Pipeline” list to be attached as an informational sheet to the SVT Supplier Terms and Conditions tariff. (ICC Staff Ex. 17.0, p. 5.) This revision to the SVT tariff was also acceptable to the Marketers. (Ameren Ex. 40.0, p. 8.)

4. Rider GTA

a. Sunset Provision

As Ms. Seckler explained, Rider GTA - Gas Transition Adjustment (Rider GTA) is a transitional rider. (Ameren Ex. 26.0 (Seckler Reb.), p. 23.) Over time, AIC will have a better understanding of the amount of switching that is occurring, the amount of switching that can be expected (at least in the near term), seasonal patterns that may develop, pricing triggers, and other information that may influence the Company's purchasing practices. As such, AIC proposed a three-year sunset provision for Rider GTA beginning at the start of the SVT program. Assuming a start date of November 2014, Rider GTA would end in October 2017. Dr. Rearden agrees that a three-year sunset provision is prudent if an SVT program is approved. (ICC Staff Ex. 16.0, p. 4.) AIC has reached the same understanding with the Marketers, with Rider GTA

ending April 30, 2017. However, AIC reserves the right to request reinstatement of Rider GTA, or a similar rider, after it sunsets should the circumstances warrant, as determined in the discretion of AIC. (Ameren Ex. 40.0 (Seckler Sur.), p. 3.)

b. Use of System Weighted Average Cost of Gas

Staff witness Dr. Rearden argues that the system weighted average cost of gas (WACOG) is appropriate to compare to the liquidation price to determine the amount to allocate between Rider GTA and Rider PGA. (ICC Staff Exs. 7.0, pp. 10-11; 16.0, pp. 5-9.) In her rebuttal testimony, Ms. Seckler noted Dr. Rearden raised several good points about the system WACOG having a consistent impact to the PGA; so AIC agreed system WACOG should be used, provided it is properly defined. (Ameren Ex. 40.0, p. 4.) An issue remains, however, as to how system WACOG should be defined. The proper definition of system WACOG is addressed in Section VIII (B)(5)(a) *infra*.

c. Tariff Language Changes

See Section VIII (A)(3)(a) *supra*.

5. Rider GSIC

a. Identification of Costs to be Recovered

Rider Gas System Integrity Charge (Rider GSIC) calculates a charge for assets used by the Company to balance and maintain the integrity of the gas distribution system for the benefit of all customers. (Ameren Ex. 26.0 (Seckler Reb.), p. 10.) Staff witness Dr. Rearden believes the concept underlying Rider GSIC is theoretically sound if AIC has a consistent and fully considered approach to the assets it selects to retain and balance within its system. (ICC Staff Ex. 7.0, p. 12.) Dr. Rearden recommended the SVT tariff include the specific assets whose cost will be recovered in Rider GSIC and requested an explanation as to why costs for these assets should be recovered in Rider GSIC instead of Rider PGA or Rider GTA, before their inclusion in the rider.

(ICC Staff Ex. 16.0, p. 11.) Ms. Seckler emphasized that a significant number of contracts in the Company's portfolio are expiring in March of 2015, shortly after the proposed effective date of SVT in November 2014. (Ameren Ex. 40.0 (Seckler Sur.), p. 5.) Every year, contracts expire with no guarantee of renewal for the exact same volumes on the same pipeline. (*Id.*) Some pipelines change designated contract numbers every time a contract is renewed even if it is for the exact same volumes on that pipeline. (*Id.*) Therefore, it is not logical to file a list of contracts in a tariff when the contracts will be out of date shortly after being filed and constantly changing.

To address Dr. Rearden's concerns, however, AIC proposed to file a list of contracts with the ICC Manager of Accounting by October 1 of each year identifying the costs that will be removed from Rider PGA and recovered through Rider GSIC during the following November 1 through October 31 time period. (*Id.*) The Marketers have also agreed to this recommendation. (*Id.*)

b. Storage Inventory Transactions

Mr. Puican recommends that, if it is necessary for AIC to purchase any storage inventory, such purchases should occur at a first-of-the-month index from an agreed-upon source such that AIC does not make or lose money on the transaction. (ICEA/RESA Exs. 2.0, pp. 9-11; 4.0, pp. 18-19.) He stated that AIC would simply facilitate the volumes to be transferred and the exchange of money associated with it, and concluded the goal is elimination of the default price being set at 50% of the Chicago index price. (ICEA/RESA Ex. 4.0, p. 19.) To clarify, AIC does not make or lose money on transactions that are recovered through Rider PGA. (Ameren Ex. 40.0, p. 9.) The sales customers would be subsidizing the SVT transactions. (*Id.*) However, as Ms. Seckler explained, AIC will support the change to the first-of-the-month index on the condition that the cost of any storage inventory transaction is recovered in Rider GSIC instead of

Rider PGA to ensure the impact to the sales customers is minimized. (*Id.*) The Marketers have agreed that the cost of any storage inventory transaction should be recovered in Rider GSIC, not Rider PGA. (*Id.*)

c. Tariff Language Changes

See Section VIII (A)(3)(a) *supra*.

6. Price to Compare

RGS witness Mr. Crist asserts the price-to-compare should include the utility's gas commodity rate, any reconciliation for over and under collection, utility cost of gas procurement and associated uncollectibles for utility supply. (RGS Ex. 2.0, pp. 8-10.) He states an accurate price-to-compare is important to provide appropriate information to customers and to establish a level playing field. (*Id.*) AIC agrees with Mr. Crist with respect to the importance of an accurate price-to-compare, but disagrees with the components Mr. Crist lists to include in it. (Ameren Ex. 40.0 (Seckler Sur.), p. 12.) The PGA would be an accurate price-to-compare because it includes all the costs the utility incurs to serve the sales customers, is readily available, is publicly filed and is the price sales customers pay. (*Id.*) The utility cost of gas procurement is included in delivery rates and is not tracked by the customers served since all customers benefit from the activities to maintain and balance the delivery system. (*Id.*)

Despite this disagreement, AIC, ICEA/RESA and RGS have agreed the price-to-compare issue will be a topic of discussion at the stakeholder meeting before the SVT tariff filing. (Ameren Ex. 40.0, p. 12.) Any changes to the price to compare will also be a discussion topic at the annual stakeholder meeting. (*Id.*)

B. Contested Issues

1. Approval of SVT

As discussed in Section VIII *supra*, AIC is willing to implement a SVT program if the

Commission orders the Company to do so, and approves recovery of the associated costs.

Ameren Illinois witness Ms. Seckler, in her supplemental direct testimony, offered the tariffs to be considered should such a program be approved. Simply stated, AIC requests the Commission's decision on whether the Company should implement an SVT program.

In the event the Commission requires Ameren Illinois to implement its SVT program, AIC has proposed, in conjunction therewith, Riders GTA and GSIC. The purpose of Rider GTA is to charge or credit Rider SVT customers an amount associated with the liquidation of contracts affected by the level of switching that occurs when those customers switch to SVT service. (Ameren Ex. 26.1, p. 33.) Rider GSIC imposes a monthly charge on all customers taking delivery service (except customers receiving service under Rate GDS-7). The Rider GSIC charge is associated with the system integrity assets needed to balance and maintain the integrity of the gas distribution system. Rider GSIC specifically requires the system integrity assets be accounted for separately from the assets recovered for through Rider PGA. (Ameren Ex. 26.1, p. 29.)

2. Purchase of Receivables

CUB witness Mr. Cohen indicates particular scrutiny should be applied to the proposed POR due to the recent ruling in Nicor's recent case, Docket 12-0596. (CUB Ex. 2.0, p. 4.) As discussed in Section VIII (A)(3)(b), AIC believes Utility Consolidated Billing/Purchase of Receivables (UCB/POR) is an important aspect of a successful SVT program based on its experience on the electric side of its business and has included the provision in its tariffs and cost projections. (Ameren Ex. 40.0 (Seckler Sur.), p. 7.) POR is discussed in more detail at Section VIII (B)(4), *infra*.

3. Consumer Protections

As noted above, AIC is supportive of collaborative meetings with suppliers and other

stakeholders to be held in the 1st quarter of 2014, to discuss, among other issues, consumer education and awareness. (Ameren Ex. 40.0 (Seckler Sur.), p. 7.)

4. Discount Rate for SVT and UCB/POR Customers

ICEA/RESA witness Mr. Puican recommended, and AIC agreed, that the initial discount rate under SVT reflect the Uncollectible Factor rate contained in Rider S. (Ameren Ex. 37.0 (Jones Sur.), p. 7; ICEA/RESA Ex. 4.0, p. 12.) The parties also agree the amount of the discount should be revisited after the program has been in effect for at least 12 months, and participation rates reach 20%. (Ameren E. 37.0, p. 7; ICEA/RESA Ex. 4.0, p. 12.)

Rider S Uncollectible Factor and SVT UCB/POR Discount Rate should be established jointly, not independently. As AIC witness Mr. Jones explained, AIC's Purchase of Receivables (POR) program allows a supplier to assign to the Company its rights to all amounts due (i.e., receivable) from its participating customers for the provision of gas supply service billed by the Company under the Utility Consolidated Billing program. (Ameren Ex. 23.0 (Jones Reb.), p. 15.) In exchange, the Company pays the supplier for the receivable at a discount on the full face value of the receivable. The rate applied to determine this discount is also known as the Discount Rate. (*Id.*)

The Rider S Uncollectible Factor is needed to compensate the Company for its supply-related uncollectible expense, which is *not* recovered in its delivery service rates. It is also needed to administer Rider GUA—Gas Uncollectible Adjustment (Rider GUA). (*Id.*) Rider GUA allows the Company to true-up the difference between uncollectible expense “included in rates” and actual uncollectible expense experienced in a year. Rider GUA determines separate adjustments for delivery and supply related uncollectible true-ups. (*Id.*, p. 16.) The Rider S Uncollectible Factor establishes the amount of supply-related uncollectible expense that is “included in rates” by multiplying said factor by the cost of gas determined in Rider PGA—

Purchased Gas Adjustment (Rider PGA). The Uncollectible Factor is reset in rate cases to correspond to the level of test-year uncollectible expense reflected in the overall revenue requirement. (*Id.*) AIC proposed setting the Discount Rate equal to the Uncollectible Factor in Rider S because of a) no apparent cost of service differential, b) ease of administration, and c) comparability of service between PGA and SVT (competitively neutral). (*Id.*)

After the initial period expires, Mr. Puican argues that "[t]he Discount Rate under Rider SVT should reflect the actual uncollectible experience of Rider SVT customers after a reasonable amount of time has passed and reasonable participation levels have been achieved." (ICEA/RESA Ex. 4.0, p. 12:235-37.) On this point, AIC disagrees. This disagreement stems from the parties' beliefs of what the data will show. The payment habits of Rider SVT customers will not be substantially different than those for Rider S/PGA customers. Mr. Puican believes differently. As the SVT program matures, AIC will have data for both SVT and Rider S-PGA customers to compare. AIC is not opposed to examining the payment collections and billings for the two customer groupings. Therefore, when participation in Rider SVT reaches 20%, AIC has agreed with the Marketers to submit a report to the Commission for a determination on whether it is in customers' best interest to change the methodology for determining the Discount Rate. (Ameren Ex. 37.0, p. 7.) AIC stresses that no commitment to change Discount Rate methodology is implied in the submission of the report, only a commitment to evaluate and compare. Until that time, this issue appears to be resolved.

Mr. Puican also recommends "that there should be a true-up for Rider SVT customers based on the uncollectible experience under Rider SVT, not a true-up to the uncollectible experiences of Rider SVT and Rider S-PGA customers." (ICEA/RESA Ex. 4.0, p. 13.) Both AIC and Mr. Puican agree, however, that this issue does not need to be decided now. (Ameren

Ex. 37.0, p. 8; ICEA/RESA Ex. 4.0, p. 13.) Deciding the appropriate true-up mechanism should be deferred until the suggested comparison study (discussed above) is completed and the Commission has shown interest in changing the methodology for determining the Discount Rate. At that time, it could also be decided if any study differential is sufficient to warrant implementing a separate process and reconciliation, and the resulting effect on competition.

5. Rider GTA

In the event Commission directs Ameren Illinois to implement its SVT program, it should also approve Rider GTA. Rider GTA is necessary to ensure that customers who remain on sales service—customers who have not switched to SVT—are not disadvantaged. (Ameren Ex. 26.0 (Seckler Reb.), p. 4.) Rider GTA is also necessary to charge the costs caused by switching from the sales service to alternative gas supply to the appropriate customers. (*Id.*) Rider GTA charges SVT customers for gas supply costs incurred when AIC needs to liquidate gas contracts because those customers will be served by another supplier. (*Id.*) Without Rider GTA, the sales customers will bear the costs associated with liquidating gas supply contracts that are no longer required due to sales customers switching to SVT. AIC and Staff agree customers that do not switch to SVT should be held harmless if AIC has excess gas supply as a result of sales customers switching to SVT. (Ameren Ex. 26.0, p. 4.)

Staff witness Dr. Rearden, however, expressed skepticism that AIC will need Rider GTA due to the delay in the start of a SVT program until the fourth quarter of 2014. (ICC Staff Ex. 16.0, p. 4.) The start date of the SVT program is irrelevant. What matters is once the SVT program is in operation, AIC will need to liquidate contracts to account for customer switching; it can't predict the level of customer switching today, for obvious reasons.

Dr. Rearden accurately states “Ameren has locked in the price for less than 2% of its expected purchases in 2015, which is the first full year of SVT.” (ICC Staff Ex. 16.0, p. 4.)

However, he neglects to consider the baseload gas that is not price hedged and the storage inventory withdrawals in the Company's portfolio. AIC has an obligation to flow all baseload gas and cycle storage, not just an obligation to purchase gas that is price hedged. (Ameren Ex. 40.0 (Seckler Sur.), p. 3.) If the planned storage withdrawals are added to the current baseload gas purchased for winter 2015/16, a total of approximately 66% of the gas is contracted under "must take" provisions. (*Id.*) In other words, AIC has an obligation to purchase all of this supply. If a large number of customers switch to SVT, AIC will not have the required level of load necessary to fulfill the obligation of purchased supply and will need a mechanism such as Rider GTA to liquidate the contracts so that the sales customers are held harmless. Rider GTA is designed to liquidate any baseload supply purchased but not needed due to customers switching to SVT, not just supplies that are price hedged. (*Id.*) Therefore, if the Commission directs AIC to implement an SVT program, it should also approve Rider GTA, and its sunset date April 30, 2017.

a. Definition of System Weighted Average Cost of Gas

AIC and Staff agree that Rider GTA should compare the cost to liquidate (or shed supply) to the system weighted average cost of gas (WACOG). (Ameren Ex. 40.0 (Seckler Sur.), p. 4; ICC Staff Ex. 16.0, pp. 5-7.) The problem remains, though, as to how system WACOG should be defined. Dr. Rearden proposed the Factor CGC from the PGA could be used for the definition. (ICC Staff Ex. 16.0, p. 6.)

Factor CGC in the PGA is not the appropriate definition of system WACOG. As Ms. Seckler explained, Factor CGC in the PGA includes costs such as transportation variable costs and pipeline fuel use and loss to move the gas from the supply basin to the AIC citygate. (Ameren Ex. 40.0, p. 4.) Typically, gas that must be liquidated will be sold in the supply basin where it was purchased and pipeline transportation will not be necessary. (*Id.*) Factor CGC also

includes over/under collections from prior periods that are not appropriate to include in the calculation. (*Id.*) AIC recommends the definition be: “the weighted average of supply purchases plus related price hedges at the location of the liquidation regardless of which pipeline.” (*Id.*) While disagreement remains regarding the appropriate definition, both AIC and Staff believe this issue could be resolved in a separate tariff proceeding. (ICC Staff Ex. 16.0, p. 6.)

Though AIC addresses this issue as contested, it believes its recommendation will be found acceptable to Staff. Ms. Seckler proposed the definition should be: “the weighted average of supply purchases plus related price hedges at the location of the liquidation regardless of which pipeline.” (Ameren Ex. 40.0, p. 4.)

6. Rider GSIC

See Section VIII (A)(5)(a) *supra*.

7. Rider PGA

AIC proposes changes to Rider PGA that are needed to ensure the PGA reconciliation statement shows the difference associated with the costs and expenses arising from the reconciliations of Riders GTA and GSIC. (Ameren Ex. 26.1, p. 108.) Staff, however, objects to the italicized language below:

In conjunction with a docketed reconciliation proceeding, the Company shall file with the Commission a calendar-year reconciliation statement, which shall be certified by the Company’s independent public accountants and verified by an Officer of the Company. This statement shall show the difference between the following:

1. the costs recoverable through the Gas Charge(s) during the Reconciliation Year as adjusted by Factor A and Factor O, and
2. the revenues arising through the application of the Gas Charge(s) to applicable Therms during the Reconciliation Year, and
3. *the costs and revenues arising through the application of Rider GTA to applicable Therms during the Reconciliation Year, and*
4. *the costs and revenues arising through the application of Rider GSIC to applicable Therms during the Reconciliation Year.*

The costs or charges associated with Riders GTA and GSIC only exist because of the SVT program and are by their nature interrelated with Rider PGA. The reconciliation of each of these riders will need to be consistent with each of the others. That is why Rider PGA explicitly states the Rider PGA reconciliation statement should show the differences associated with Riders GTA and GSIC. For example, it would be in no one's interest to have a reconciliation of Rider GTA be in conflict with, for example the reconciliation associated with Rider PGA. Therefore, the above language intends there be a recognition that the costs and charges associated with each of the Riders are properly accounted. Accordingly, Ameren Illinois recommended Rider PGA contain an acknowledgement that the PGA reconciliation show the differences between the cost and revenues associated with Rider GTA and Rider GSIC.

In her direct testimony, Staff witness Ms. Jones' only explanation of her changes to the riders were that they were of a "ministerial nature"; there was no direct commentary about the Rider PGA language discussed above. (ICC Staff Ex. 8.0, p. 3.) In her rebuttal testimony, Ms. Jones then offered her "impression" that the language concerning reconciliation with Riders GTA and GSIC appear to indicate that a separate reconciliation will be filed for each in conjunction with Rider PGA reconciliation. (ICC Staff Ex. 18.0, p. 3.) As made apparent in Ms. Jones' re-direct examination, Staff is unduly fixated on each rider having its own reconciliation. (Tr. 317.) Each rider will have its own separate reconciliation, but that is not the point. (*See* Ameren Ex 28.1, pp. 32, 35.)

Ms. Jones concludes the language she seeks to strike in Rider PGA "strongly suggests that they (Rider GTA/GSIC) are an integral part of the PGA reconciliation." (ICC Staff Ex. 17.0, p. 4.) *That is exactly the point*—they are and this is why Rider PGA references Riders GTA and GSIC as it does.

It is uncontroverted, and agreed to by Ms. Jones, that, in the absence of an SVT program, Rider GTA and GSIC costs are a subset of Rider PGA costs, and the Rider PGA reconciliation statement needs to recognize this fact in the reconciliations. Ms. Jones agreed the contracts that would otherwise have been subject of Rider GTA would be reconciled in Rider PGA reconciliation. (Tr. 313.) And she also agreed that if there was no Rider SVT, then the costs described or to be accounted for in Rider GSIC would otherwise be accounted for in the context of Rider PGA reconciliation. (Tr. 316.)

Given the overlapping nature of the costs associated with each of the riders, the Company's references to Rider GTA and GSIC costs (not the reconciliations themselves) in the context of Rider PGA will ensure a consistent application of how these riders relate to each other. (Ameren Ex. 40.0, p. 6.) In turn, a consistent relationship between the riders will ensure there is no over- or under-recovery of any costs associated with each of the reconciliations—an outcome which Ms. Jones agreed should be avoided. (Tr. 314.)

Perhaps an example would be helpful. Assume there was no SVT program, and the dollars associated with a Rider PGA reconciliation is \$100.00. Now, with the SVT program in place, the dollars associated with that Rider PGA reconciliation are \$90.00, and the other \$10.00 is the subject of Rider GSIC reconciliation. The Rider PGA language offered by the Company requires the PGA reconciliation statement to show the difference associated with the costs and revenues arising through the application of Rider GSIC. What no one wants is a reconciliation of Rider PGA where the dollar amount is \$90.00, but the Rider GSIC reconciliation dollars are \$20.00. The language offered by Ameren Illinois makes clear Rider PGA needs to reflect the reconciled amounts associated with Rider GSIC.

8. Rider SVT

a. Assessment of Pipeline Penalties

Dr. Rearden expressed concern that, under the draft tariffs, pipeline penalties are assessed only on Rider S and Rider T customers. (ICC Staff Ex. 7.0, p. 12.) Dr. Rearden argued SVT customers should not be excluded from paying the penalties regardless of the situation or cause of the penalty. (*Id.*) On rebuttal, Ms. Seckler explained AIC's Customer Terms and Conditions include a provision that has been in place for many years that allocates pipeline penalties to the customers who cause them. (Ameren Ex. 26.0 (Seckler Reb.), p. 12.) The Customer Terms and Conditions were not modified to include SVT customers in the assessment of pipeline penalties because AIC is requiring SVT suppliers to deliver a specific amount of gas on a daily basis, and the SVT Supplier Terms and Conditions charge penalties to suppliers if they do not deliver the gas as required. (*Id.*) To ensure the tariffs provide the ability to assess penalties to the appropriate customers, AIC will include the SVT customers in the assessment of penalties and bill the SVT supplier the penalty charges for their SVT group, as applicable, if Commission agrees with Dr. Rearden. (*Id.*)

Mr. Puican disagrees with this proposal for several reasons. First, he states pipeline penalties incurred by the SVT suppliers are assessed directly by the pipeline to the suppliers. (ICEA/RESA Ex. 4.0, p. 15.) Second, if AIC incurs a penalty due to an SVT supplier over- or under-delivering, the SVT Supplier Terms and Conditions require the penalty to be passed through to the responsible supplier. (*Id.*) Mr. Puican argued it should be at the SVT supplier's discretion whether to pass the penalty on to its customers. He recommended any additional penalties beyond those incurred by SVT suppliers be allocated solely to Rider S and Rider T customers. (*Id.*) He stated it would be inappropriate for SVT customers to be allocated any share of penalties incurred in the provision of service to Rider S and Rider T customers. (*Id.*)

AIC believes Dr. Rearden and Mr. Puican both make valid points regarding the parties to whom the pipeline penalties should be assessed and AIC will leave it to the Commission to decide the appropriate action. (Ameren Ex. 40.0 (Seckler Sur.), p. 8.)

IX. OTHER PROPOSED RIDERS AND TARIFF CHANGES

A. Resolved Issues

1. QIP-Eligible Projects

In his rebuttal testimony, Staff witness Mr. Ostrander recommended that AIC disclose any projects eligible for cost recovery under the QIP Rider approved by the Commission in Docket 13-0458 that were included in AIC's surrebuttal revenue requirement. (ICC Staff Ex. 12.0, p. 6.) Mr. Ostrander also recommended that the Company provide assurance that any QIP-eligible projects included in the revenue requirement in this proceeding would not be included for recovery under the QIP Rider. (*Id.*) As set forth in the testimony of Ameren Illinois witness Mr. Nelson, AIC does not intend to seek QIP Rider recovery for any asset amounts included in rate base in the 2014 test year in this case, and commits that any asset investment amounts eligible for QIP recovery and included in the revenue requirement in this case will not also be included for recovery under the QIP Rider. (Ameren Ex. 30.0 (Nelson Sur.), p. 9.) Thus, AIC considers this issue resolved.

2. Implementation of Uniform Uncollectible Factor for Purposes of Administering Rider GUA

In Docket 11-0282, the Commission approved a process to move to a single PGA value for AIC. *Ameren Ill. Co.*, Docket 11-0282, Order, p. 138 (Jan. 10, 2012). AIC indicated that the PGA value will be uniform across rate zones within months of the filing in the current case, so that the only remaining difference in the PGA across rate zones will be due to application of the uncollectible factor. (Ameren Ex. 9.0 (Althoff Dir.), p. 35.) Therefore, AIC proposed that a

uniform uncollectible factor be adopted, to achieve full uniformity within the PGA, across rate zones. (*Id.*) Staff agrees with the Company's proposal to implement a uniform uncollectible factor for purposes of administering Rider GUA. (AIC Cross Ex. 4.0 (Staff response to AIC-Staff 14.01).) No party contests this proposal, and AIC considers the issue resolved.

B. Contested Issues

X. OTHER

A. Accepted Recommendations

1. Impact of Divestiture of Merchant Generating Assets in Future Rate Case

Staff witness Ms. Pearce recommended "the Commission order the Company to assess the impact of the divestiture of the merchant generating assets in the subsequent gas rate proceeding and for the Company to provide evidence in that proceeding that an effort was made to mitigate the costs of the transaction and corresponding impact on AIC and its affiliates." (ICC Staff Ex. 3.0, pp. 2, 13.) Ameren Illinois has accepted this recommendation and will provide the requested evidence in its next gas rate case. (Ameren Ex. 16.0 (2d Rev.) (Nelson Reb.), p. 16.)

2. Reporting Recommendations

a. FERC Form 60 and FERC Audits Provided to Manager of Accounting of Commission

Staff witness Ms. Pearce also recommended the Commission order AIC to: (1) provide an electronic copy of its FERC Form 60 to the Manager of Accounting of the Commission on the day the FERC Form 60 is filed with FERC; (2) notify the Manager of Accounting of the Commission within 30 days of implementation of substantial changes to service company allocation factors; and (3) provide electronic copies of all FERC orders resulting from a FERC audit of costs or procedures that are subject to allocation or direct assignment to AIC and any responses to FERC by AIC to the Manager of Accounting of the Commission. (ICC Staff Ex.

3.0, pp. 13-14.) Ameren Illinois has accepted this recommendation. (Ameren Ex. 16.0 (2d Rev.) (Nelson Reb.), p. 16.)

B. Other Issues

1. Company Use of Fuels

In his rebuttal testimony, Staff witness Mr. Kahle noted that, in Docket 13-0101, Ameren Illinois's ongoing electric formula rate case, Staff raised a concern that AIC might recover more than 100% of its common costs for Company Use of Fuels. (ICC Staff Ex. 11.0 (Rev.), pp. 15-16.) Mr. Kahle recommended that Ameren Illinois provide testimony to show that only 100% of common costs will be recovered by the rates set in this case and Docket 13-0301. (*Id.*) However, he did not propose any adjustment.

In Docket 13-0301, Staff expressed concern that the Company could recover more than 100% of its common costs for Company Use of Fuels, and possibly other accounts, as a result of different allocation factors being proposed in the electric and gas formula rate proceedings. (Ameren Ex. 31.0 (Stafford Sur.), p. 6.) However, Ameren Illinois has valid reasons for using different allocators in the two proceedings. In this proceeding, Ameren Illinois used a Labor Allocator for three primary reasons: (1) it fully assigns Company Use of Fuels between electric and gas operations; and (2) use of this allocator is consistent with the method used in AIC's prior future test year Docket 11-0282; and (3) some Company Use assets are on the books of the gas utility and are thus not considered in the electric ASP allocation process. (Ameren Ex. 31.0, pp. 6-7.). Assignment of Company Use of Fuels to gas in Docket 11-0282 was slightly higher, at 31.75%, than the allocation proposed in the current proceeding. (*Id.*)

In Docket 13-0301, the Company applied the Asset Separation Project (ASP) General Plant Allocator (69.66%) to determine the electric distribution amount for two primary reasons: (1) the ASP General Plant Allocator was listed on the formula rate template as an allocator on

Sch. FR A-2 at lines 24-26 and, thus, the use of this electric allocator provides more transparency in the formula rate making process when contrasted to a labor allocator that uses both electric and gas inputs; and (2) joint use facilities are recorded in AIC's electric general plant accounts and allocated via the ASP to the electric distribution business. (Ameren Ex. 31.0, p. 7.)

The Company's use of these two different allocators does not result in recovery of more than 100% of the Company's expense for this item. The amounts allocated under each method arose in different time periods. This proceeding utilizes a forecasted test year of 2014 and Docket 13-0301 utilizes 2012 actual data for the allocations. (*Id.*) One would not expect allocations based on 2014-forecasted information to produce the same results as 2012 actual. Furthermore, in the context of a formula rate proceeding, the use of an allocator that can be found within the approved formula rate template, such as the ASP General Plant Allocator, when practical, provides more transparency to the reviewer. (Ameren Ex. 31.0, p. 7.) Similarly, use of a Labor Allocator in the context of a gas rate case is beneficial because the allocator is identified directly within the Part 285 A Schedules and is used elsewhere within the Company's filing to allocate costs between electric and gas operations. (*Id.*) In summary, there are valid reasons for using different allocators, and the use of which will not result in recover of more than 100% for this expense.

Dated: September 20, 2013

Respectfully submitted,

Ameren Illinois Company

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CERTIFICATE OF SERVICE

I, Albert D. Sturtevant, an attorney, certify that on September 20, 2013, I caused a copy of the foregoing Ameren Illinois Company's Initial Brief to be served by electronic mail to the individuals on the Commission's Service List for Docket 13-0192.

/s/ Albert D. Sturtevant

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